TÜSİAD TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

TÜSİAD

Quarterly Economic Survey

July 1995

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İstanbul

(25 July, 1995)

(TÜSİAD-T/95, 7 - 183)

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ISSN : 1300 - 4298

FOREWORD

TÜSİAD stands for "Türk Sanayicileri ve İşadamları Derneği" ("The Turkish Industrialists' and Businessmen's Association") which was founded in 1971 by a group of leading names in Turkish industry and business. TÜSİAD is an independent, non-profit institution whose primary purpose is to promote public welfare. TÜSİAD is scientific and objective in its researches. It is emphasised that this study does not necessarily reflect the views of the TÜSİAD members nor, of course, is it to be considered in any way whatever to be an official publication.

The fourth issuse of TÜSİAD Quarterly Economic Survey is prepared by utilising the most recent data and estimations available in April, May and June 1995 by Economic Research Department.

JULY 25, 1995

Domestic demand is still low, output growth is led by exports.

In the first quarter of 1995, despite the contraction in domestic demand, growth performance has been higher than expected due to the expansion in foreign demand. The GDP growth rate for the first quarter of 1995 was above the TÜSİAD estimate -computed as -4.4 percent under the assumption that domestic demand would follow the contractionary trend- and attained -0.2 percent. In fact, the expenditure approach shows that this performance is export-led rather than being the result of domestic demand expansion. The contraction in domestic demand has been compensated by the increase in export revenues, since producers have reoriented themselves towards foreign markets -partially as a result of the price advantage they enjoyed at the time when foreign trade contracts have been established. The 19.7 percent increase in external demand led to a 4 percent increase in the GDP and although the other components of the GDP contracted by 6.8 percent, the GDP itself has only decreased by 1.5 percent.

Private sector investment and consumption expenditures continued to decline; public consumption expenditures increased.

If we look at the growth rate from the expenditure side, it is observed that public consumption expenditures and exports of goods and services increased, while private final consumption expenditures and gross fixed capital investments continued to decline.

Private final consumption expenditures, which constitute 71.3 percent of the GDP viewed from the expenditure side, decreased by 4.7 percent whereas gross fixed capital investment, which is 24.7 percent of the GDP, decreased by 16.9 percent. Foreign demand was up by 19.7 percent and public final consumption expenditures by 6.9 percent in the same period. The GDP is also positively affected by another development; the change in inventories which was negative in the first quarter in the last years -with the exception of 1990- became positive in 1995.

Considering the decrease in inventories in 1994 and the increase in especially raw materials imports in the first quarter of 1995, it is expected that inventory accumulation will continue in the second quarter of 1995.

The 18.9 percent contraction in consumer durables is an important factor in explaining the 4.7 percent decrease in private final consumption expenditures. There is also a 11 percent decrease in consumer nondurables and semidurables. These rates point to the fact that domestic markets had still not fully recovered from the effects of the crisis in the first quarter of 1995.

Public final consumption expenditures are up by 6.9 percent. This is accounted for by the 2.7 percent increase in salaries and wages and by the 21.5 percent increase in public sector's purchases of goods and services.

There is a 16.9 percent decline in the aggregate gross fixed capital accumulation with public and private sector figures being 35.7 percent and 13.5 percent respectively. However, machinery & equipment investments -which constitute two thirds of private sector investments- declined by 25.9 percent. This fact shows that the private sector is still not fully committed to invest as a result of market volatility and is looking for further stabilization. The decline in the private sector's machinery & equipment investment accounts for three fourths of the negative effect on growth of overall gross fixed investment decrease.

Production is again following an upward trend after having gone downwards for four quarters compared to the same quarter of the previous year.

After the SIS (State Institute of Statistics) changed the base year to 1992 by modifying the subsector weights of the industrial production index, it is understood that the contraction in the industrial sector in 1994 was more serious than previously thought. Hence, the 1993 industrial production growth rate, which was 6.7 percent according to the former index, has been revised as 5. 9 percent. The respective 1994 figure is also reset as -6.2 percent instead of the previous -4.9 percent.

According to the new index, industrial output, which was declining relative to the same month of the previous year since April 1994, rose significantly in April 1995 and is now even higher than the 1993 level. The index pointed to a 13.8 percent increase in April and is up by 13.6 percent in May too.

Despite the observed expansion in April and in May, as a result of the contraction during the first quarter of 1995 compared to the same quarter of 1994, industrial production growth rate has been -2.7 percent for the January-May period. This contraction in industrial production is rooted in the decline of output in the machinery industry which accounts for 20 percent of overall industrial production. The machinery industry, which also comprises consumer durables, is the sector which felt most the effects of the relative stagnation in domestic demand and thus, contracted by 7.5 percent, the highest contraction rate in the industrial sector.

Capacity utilization ratio has been correlatively increasing with industrial production. It has reached 81.5 percent in June, rising continuously since January.

Growth is expected to accelerate in the second quarter of 1995.

There are many indicators which all predict that the expansion in the Turkish economy will become significant starting from the second quarter of 1995. In addition to the monthly industrial production figures for April and May 1995, increasing capacity utilization ratios and the expansion in imports, the amount of investment within investment incentive certificates issued in January-April is up by 20 percent in real terms as compared to the same period of 1994. The increase in subsidized investments came mainly from the sectors of food, textiles and ceramics. TÜSİAD Leading Indicators Index supports high growth rate expectations as well.

The growth rate for the first quarter of 1995, was higher than TÜSİAD's estimate. Consequently, TÜSİAD revised its estimate for the yearly growth rate of 2.8 percent to 3.8 percent. Similarly, the growth rate estimate for the second quarter of 1995 is now reset at 6 percent. The error margin for the first quarter estimate is rather high. The discrepancy between the estimated and actual figures originates from the unexpected rise in foreign demand, in spite of rael exchange rate overvaluation, whilst domestic demand followed its contractionary trend as previewed.

Inflation; the tendency to return back to the pre-crisis level.

Effective June 1995, the annual CPI increase is down to 77.3 percent, declining from April onwards. Monthly CPI growth rates are under 2 percent in April and May. One of the factors explaining this development is the seasonality effect displayed by agricultural prices. However, private manufacturing sector prices -which do not include a significant seasonality component- have also slowed down to 3 percent monthly increase. Nevertheless, if the equilibrium in financial markets can not be sustained, inflationary expextations may be triggered in August when public debt repayments will increase. Starting from September, annual inflation rate may rise again since the seasonality effect in agricultural prices will disappear.

TÜSİAD last quarter year on year inflation is estimated to be 71.7 percent.

High interest rate policy prevented a decline in the budget deficit.

On a 12-months cumulative basis, the consolidated budget deficit decreased in real terms since April. In April, however, it has displayed an important increase as a result of internal debt repayments. Nonetheless, the budget has a surplus of TL 13 trillion and only a 12 trillion deficit has been projected for June. These figures show that the consolidated budget deficit is to some extent under control.

The primary budget on a 12 months cumulative basis, which was deficiary from the last quarter of 1991 onwards, gave a surplus in May 1994. Except December 1994 and May 1995, it has continued this trend ever since. Nevertheless, due to lack of external financing possibilities, internal borrowing had become a necessity. To restart domestic borrowing, which had ended by the end of 1993, Treaury offered very high real interest rates. As a consequence of domestic borrowing with short maturities accompanied by a high real interest rate policy, interest payments on internal debt have soared up. Therefore, only a limited improvement in the budget deficit could be achieved.

When we look at other expenditure items, we observe an important real decrease in salaries and investment expenditures. Transfers to the SEEs (State Economic Enterprises) were suspended when the crisis began and this had alleviated the budget deficit. During the January-April period, investment expenditures, whose share in total expenditures were already on a declining path since 1987, decreased even in nominal terms with respect to the same period of 1994. Purchases of goods and services, also declined in real terms which constituted another factor positively affecting the primary balance. Interest payments on external debt, on the other hand, were increasing in real terms.

For both political and economic reasons, it is not possible, in the medium run, for the government to continue further reductions in public expenditures other than interest payments. Hence, a further improvement in the primary balance is not expected. Under these circumstances, containing the increase in the budget deficit is contingent upon the real interest rate on domestic borrowing.

The Treasury has started to reduce interests on and extend the maturities of internal borrowing in February. This operation turned out to be an important factor in limiting the budget deficit increase during the rest of the year. Since the terms of domestic borrowing during the first half of 1995 were rather long -9 and 12 months- the pressure of interest payments on the deficit is postponed to 1996. Starting from August, the Treasury will again face heavy external and internal debt repayments. If markets take into consideration the downward trend in inflation, the Treasury will find the opportunity to borrow with lower real interest rates which might reduce the interest burden on the consolidated budget deficit.

On the other hand, since interest payments constitute a major part of the consolidated budget deficit, the positive correlation betwen increasing budget deficit and growth rate will be negatively affected. Serious declines in investment expenditures and salaries show that the previously observed correlation between increasing budget deficit and relatively high growth rate may not be effectuated. Domestic demand indicators pertaining to the first quarter of 1995 support this judgment.

Achievement of the budget deficit target depends on the privatization performance.

Since the share of salaries and investment expenditures to the total expenditures is falling steadily, controlling the consolidated budget deficit is dependent on decreasing interest payments on internal debt and also on revenue enhancing measures. The Treasury auctions are tending to result in lower compound interest rates and this might alleviate the burden of interest payments (on internal debt) on the budget for the rest of 1995. However, interest rates are still high in real terms and borrowings realized with 9 and 12 month maturities this year will put a pressure on the budget in 1996. On the other hand, interest rates on external debt are also decreasing and the sales of the Treasury in the Euroyen market are higher than expected. These developments will reduce the need for domestic borrowing during the rest of the year and conditions for further reducing interest rates will be ripe.

The Seventh Five Year Development Plan set the goal of reducing the budget deficit by decreasing public expenditures. That is, no tax reform was projected and there would not be an increase in the public revenue/GNP ratio. Nevertheless, as explained above, public deficit can only be reduced further, if the interest burden is alleviated -except by reducing the SSE's deficit by privatizing them. The interest burden on internal debt can only be reduced either by increasing external debt or by financing the deficit by monetary expansion. Since the Five Year Plan projects a 6 percent inflation for the end of the plan period, it is easy to see that foreign resources will be used to finance the budget deficit.

To a large extent, a possible improvement of the consolidated budget deficit in 1995 is conditional upon the privatization performance. Since the privatization targets set for the first half of the year are not attained, the end of the year budget deficit will be higher than projected. If the privatization revenues fall short of the projections in the second half of the year the consolidated budget deficit will probably exceed the 219 trillion, the targeted budget deficit figure as of the end of 1995. The original plan foresees a 266 trillion deficit by the end of September, which is expected to be reduced to 219 trillion at the end of the year with the help of the proceeds from privatizations.

Substantial increase in imports.

The real exchange rate appreciated rapidly and foreign demand induced production growth which led to a fast increase in imports from February onwards. However, since foreign demand was still strong, the increase in imports did not proportionately worsen the trade balance.

Imports increased at a rate of 37.1 percent, while the rise in exports was 29.3 percent in the January-May 1995 period. The trade balance deteriorated by 54.6 percent.

By looking at imports by commodity groups, it has been observed that -although there is an increase in all items- raw materials imports displayed the most rapid increase. In the first five months of 1995, raw materials imports were 17 percent higher when compared with the same period of 1993, a year of high growth at a rate of 8.1 percent. Imports in investment and consumption goods increased at a relatively slower pace.

It can be argued that there are basically two reasons which explain the rise in imports observed during the first five months of 1995. First, the economic recovery is led by exports. Second, the drastic exchange rate depreciation in the beginning of 1994 made imports relatively costly, as a result of which imported raw material stocks have been used up. Now that the economy is again taking off and that real exchange rates are even lower than their pre-crisis level, imported raw materials are again stocked up.

It is expected that the demand for imports will remain strong in the next few months even if the exchange rate devalues proportionately to inflation. The reasons are twofold; the real exchange rate has been appreciating since June 1994 and expectations for economic expansion are gaining in strength. The fast increase in imports, however, is expected to slow down in the second half of 1995.

If imports increase by 30 percent in the second half of 1995, the import volume will be up to $ 31 billion -higher than the 1993 figure. Under the assumptions that the real exchange rate will remain fixed and that domestic demand will be fuelled, exports are expected to attain $ 21 billion. In this case, the trade deficit will exceed $ 10 billion.

The exports growth rate of 29.3 percent in the first five months of 1995 compared to the same period of 1994 is expected to decline in the rest of the year. The real appreciation in the exchange rate as well as the high export volume in the second half of 1994 makes it rather difficult to sustaine the high growth rate. After both exports and imports boomed rapidly in April, in May exports rose only by 23 percent and imports increased by 78.4 percent, as a result the trade deficit grew fivefold. In the first five months of 1995 exports covered 65.4 percent of imports, a figure below the previous year's 69.3 percent for the same period. Foreign trade deficit for the first five months of 1995 is $ 4.3 billion.

The foreign trade deficit will have a negative impact on the current account balance.

As foreign trade balances deteriorate so does the current account. The current account balance was improving since April 1994 but it tended to deteriorate again in February 1995. The $ 604 billion surplus in the current account as of January 1995 turned into a deficit in the February-April period. The current account surplus is $ 203 billion for the first four months of this year versus a deficit of $ 795 billion for the same period of 1994. In January-April 1995 the trade balance is up to $ 2.75 billion versus $ 2.19 billion of 1994 thanks to an increase in invisibles -mainly freight and insurance revenues. In this period, other revenues from goods and services grew by 44 percent whereas other expenditures for goods and services increased only by 22.4 percent. Official unrequited transfers from the Gulf Fund ($ 588 billion) also helped the current account balance remain positive for the first four months of the year. Overall official unrequited transfers were $ 659 billion in that period.

Extensive short run capital flights had followed the crisis of beginning 1994. Nevertheless, short run capital inflow were induced by the interest rate policy adopted from mid 1994 onwards and by the consequent depreciation of the TL vis-a-vis the US$. Capital inflows began by the end of 1994. From January 1995 to April 1995 net short term capital inflows reached $ 3 billion versus the $ 1.5 billion exit of 1994's same period.

Net errors and omissions displayed a parallel development. Unrecorded capital flights reached $ 2.5 billion in the first four months of 1994 while unrecorded capital inflows were $ 1.2 billion in the respective period of 1995. Thus, short run capital inflows and net errors and omissions reached a total of net $ 4.2 billion. In this period, besides the bottlenecks in foreign financement, portfolio investments continued to decline. Portfolio investments declined significantly in the first four months of the year and are down to - $ 0.2 billion versus $ 1.6 billion of 1994.

Again, compared to the January-April period of 1994, direct investments increased from $ 93 million to $ 123 million in 1995 but the long run net capital inflow is down to $ 128 million versus $ 157 million of 1994. Overall, there is a $ 4.4 billion increase in foreign exchange reserves, of which $ 3 billion came from short run capital inflows, $ 1.2 billion from net errors and omissions and finally, $ 0.2 billion was the current account surplus.

As the current account deteriorates -unless the budget deficit grows higher- public sector's demand for private savings surplus will decline.

From the last quarter of 1994 onwards, the constant price consolidated budget deficit did not grow, which limited the public sector's need for private funds. As the current account balances deteriorate, the budget deficit will be financed by external funds rather than by domestic private sector funds.

Central Bank's foreign currency exposure diminishes. Central Bank money rose in the second quarter of 1995 thanks to open market operations and to the increase in reserves.

From mid 1994 onwards, Central bank foreign currency reserves rose rapidly as a result of new measures and, after the IMF stand-by, of the monetary policy targeted to decrease net domestic assets while increasing net foreign assets.

Central Bank's foreign currency reserves, which were down to $ 3 billion in March 1994, rose up to $ 7.1 billion by the end of the year and to $ 13.4 billion by the end of June 1995. High real interest rates and the appreciation of the real exchange rate against the US$ led to a higher demand for the TL, which explains the rise in foreign currency reserves. Reserves continued to increase in May and June - a period of intense external debt payments - and Central Bank's foreign currency exposure (i.e. the F/X short position) rapidly diminished thanks to this development. Foreign currency exposure went down to $ 0.6 billion as of end of June 1995 from its end of 1994 level of $ 3.4 billion.

Taking into account the developments in the CB Analytical Balance Sheet, we observe that monetary expansion has financed to a large extent the rise in the CB's foreign currency assets. In the first half of 1995, the CB's foreign currency assets grew by 90.3 percent whereas foreign currency liabilities grew only by 45.7 percent. Consequently, the share of foreign currency liabilities in total liabilities shrank to 63.6 percent by the end of june 1995 versus 72.1 percent as of the end of 1994. As a parallel development, the share of CB money in total liabilities rose from 27.9 percent to 36.4 percent.

The Treasury has been able to borrow from the domestic market in the January-March period. So, it did not need the CB's resources and the CB's domestic assets' growth remained in limited proportions. In April-May, however, as a result of internal and foreign debt repayments, short term advances from the CB increased. Nonetheless, since short term advances to the Treasury fell to TL 106 trillion in June, domestic assets shrank again. That domestic assets remained fixed in real terms in the first half of the year, shows that the CB did not cause monatary expansion. The share of domestic assets in total assets fell to 37.9 percent by the end of June whereas it was 46.8 percent at the end of 1994. Foreign assets, on the other hand, rose from 53.2 percent to 62.1 percent in the same period.

The Treasury began to lenghten the maturities of domestic borrowing in February and did not sell short maturity bills. Liquidity rose as a result since conditions for long term investment were not ripe in the markets. The CB's F/X position was strong and the markets expected a continued appreciation of the TL; hence, liquity in the market did not switch to foreign exchange and this process ended by the CB's open market operations which absorbed excess liquidy. Debts arising from open market operations rose from TL -2.1 trillion as of the end of January to TL 10.9 trillion by the end of February, to TL 54.6 trillion by the end of April and to TL 110.2 trillion at the end of May. In June the debt shrank to TL 107 trillion.

As a consequence of the rise in net foreign assets, the increase in reserve money was 54.2 percent, higher than the anticipated 41 percent.

Monetary expansion in the second quarter of 1995.

The annual growth rates of monetary aggregates declined from the first quarter onwards. However, in the second quarter, monetary aggregates expanded significantly in real terms.

The money supply M1 shrank by 2 percent in the first quarter of 1995 but increased by 34.5 percent in the second quarter since the money in circulation increased. Thus, the money supply M1 remained constant in real terms in the first half of the year. Nonetheless, M2 rose by 49.8 percent as a result of the increase in deposit accounts (up to 72.3 percent) in the same period. The real growth rate of M2 was 13.8 percent for the first half of the year. The increase in M2Y, however, was only 35.8 percent thanks to the slowdown in foreign exchange deposits.

The composite stock exchange index has been tending to rise in US$ terms since the beginning of 1995.

The Stock Exchange Index continued its upward trend which began in the second quarter from 39,821 and reached 54,653 on April 21. The index reached historically high levels in this period and, after having reached 55,500 on April 24, began to fluctuate. The April-June period ended with 21.1 percent increase, at 48,233. Those fluctuations were mostly caused by short term political prospects, the nature of economic data and market expectations. The Stock Exchange reached a transaction volume of TL 361 trillion in the first quarter of 1995 but rose to TL 766 trillion in the April-June period corresponding to a 112 percent increase. If we look at the Stock Exchange on the firms' basis, we do observe that the equities of 170 firms out of 180 have gained whereas only nine have lost in value. The increase in the transaction volume and the continual records induced the firms to issue equities further. In the second quarter, a total of 14 enterprises have issued equities worth TL 7,400 billion.

The Stock Exchange was bullish just before the Religious Holiday since the demand for liquidy rose sharply and continued to experience a downfall right after the Holiday also. This happened although the Stock Exchange had been expected to enjoy the positive impact of its new building. The combined index fell down to approximately 43,000 on May 22. At around that time, the Stock Exchange began to rise again, hovering around its record levels. The stability of the exchange rates, the decrease in interests and the positive impact of newly announced quarterly balance sheets - which displayed brilliance relative to 1994 - accounted for this new upward trend. Another important factor was restored political stability after the June elections. Furthermore, the annual inflation rate had cooled-down to less than 80 percent with the newly announced April, May and June figures.

The real interest/real exchange rate parity is still high in favor of the TL.

Although the CB gave, in July, signals of a policy of indexing the exchange rate depreciation to inflation and despite the fact that the Treasury Bills' interests started to rise from June onwards, the real interest rate/real exchange rate parity is still high.

Starting from February 1995, the Treasury could borrow with higher than three months maturities. After the February borrowings with 6 and 7 months maturities, the Treasury borrowed with 9 and 12 months maturities in March. Simultaneously, it could lower capitalized interest rates. The Treasury did again experience difficulties in borrowing with long termed maturities at the end of April which led to an increase in interest rates. Although, in May and June, inflation slowed down, real interests continued to be high.

If the real exchange rate continues to appreciate, trade balances may be negatively affected in the next period. Considering the rise in imports since February and that the economy will grow at approximately 5 percent from the second quarter onwards, the trade balance will deteriorate as a result of high domestic demand and a weakened price advantage. In the face of this possibility, domestic demand should be kept under control and net domestic assets should not be allowed to increase in real terms.

If the (a tendency of both the Commercial Banks and the Treasury's interest rates to fall, the narrowing of the gap between these two interest rates, the signs that the real exchange rate may appreciate at a slower pace, the tendency of the bank credits to rise) interest-inflation-devaluation rates continue their trend observed since the beginning of 1995 and, especially, in the second quarter, it is expected that macroeconomic equilibria will not deteriorate substantially in the second half of the year.

MAIN ECONOMIC INDICATORS (1994-1995)

	1994							1995					
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)													
Annual % increase	-8.5	-16.3	-0.4	-7.2	-6.3	-2.7	-11.5	-7.7	-1.9	-1.3	13.8	13.6	. .
Monthly % increase	3.0	1.8	7.8	9.2	3.9	0.4	-3.6	-6.8	-9.2	5.8	8.8	-6.1	. .
Monthly % increase (Seasonally Adjusted)	9.9	-5.5	10.9	-2.8	-0.2	2.9	-0.6	-1.3	-1.1	-0.7	13.2	-9.0	
CAPACITY UTILISATION RATIO (SIS, %)	70.0	71.0	72.9	78.7	76.1	74.9	76.8	71.7	72.4	74.7	79.0	79.4	81.5
WHOLESALE PRICES (SIS, 1987=100)													
Annual % increase	137.6	128.8	126.5	129.6	136.9	137.0	149.6	156.8	149.8	144.3	91.2	78.4	77.3
Monthly % increase	1.9	0.9	2.7	5.4	6.9	6.4	8.3	8.4	7.0	6.1	3.9	1.7	1.3
Monthly % increase (Seasonally Adjusted)	4.3	4.0	3.3	5.4	7.3	6.6	9.4	7.2	4.5	3.5	2.7	2.2	2.7
EXCHANGE RATE ($)													
TL/US$ (Monthly Average)	31,682	30,970	31,796	33,920	34,962	36,291	37,506	40,249	41,018	41,693	42,227	43,024	43,061
Annual % increase	202.6	177.3	173.4	185.9	179.9	171.7	167.1	165.3	131.5	102.4	31.3	26.9	35.9
Monthly % increase	-6.5	-2.2	2.7	6.7	3.1	3.8	3.4	7.3	1.9	1.7	1.3	1.9	0.1
INTEREST RATES (Yearly Simple Rate)													
Deposits (End of period)													
1 month	100.0	57.0	47.8	47.8	47.0	56.5	58.0	65.8	65.8	61.3	60.0	60.0	60.0
3 months	115.0	72.0	62.0	62.0	60.5	72.0	74.0	81.3	81.3	75.8	72.0	70.8	70.8
6 months	120.0	94.0	68.0	68.0	63.3	76.0	78.0	85.8	85.8	82	77.0	75.8	75.8
12 months	128.0	106.0	111.5	113.0	115.0	117.8	107.4	130.9	111.2	106.1	90.0	90.0	90.0
Treasury (Monthly Average)													
1 month	161.3	-	-	-	-	-	-	-	-	-	-	-	-
3 months	162.4	101.3	94.4	88.3	79.2	89.7	99.7	111.8	-	-	77.4	80.9	71.9
6 months	141.6	128.5	113.1	105.0	96.8	-	106.4	128.0	112.0	-	80.6	89.6	84.2
9 months	-	-	-	-	-	-	-	-	-	105.3	86.1	100.7	-
12 months	-	-	-	-	-	-	-	-	-	123.7	98.9	116.0	115.8

(. .): not available
(-): no auction

	1994								1995				
	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May
FOREIGN TRADE													
Value (Current $ prices)													
Imports (Annual % increase)	-42.6	-25.0	-34.9	-27.2	-20.0	-11.1	-13.4	-19.6	-2.6	30.3	24.9	73.0	78.4
Exports (Annual % increase)	-8.9	56.4	33.5	35.3	36.6	17.9	28.4	19.9	18.1	29.9	25.5	51.1	23.3
Price Index (1989=100)													
Imports (Annual % increase)	-2.0	2.3	10.4	4.1	3.2	7.9	14.6	6.9	11.2	19.9	23.6	22.8	22.6
Exports (Annual % increase)	-10.4	-3.1	-0.9	-5.4	-4.2	-0.8	1.4	2.9	4.6	-4.8	10.5	18.1	18.4
Quantity Index (1989 prices)													
Imports (Annual % increase)	-39.1	-36.0	-45.5	-26.2	-24.8	-21.5	-11.1	-22.2	-9.7	-6.3	14.2	37.2	35.1
Exports (Annual % increase)	-0.9	54.8	28.9	32.7	30.5	12.4	16.8	11.2	14.7	17.2	20.8	32.2	4.2
FOREIGN TRADE BALANCE ($ Million)													
Imports (Monthly)	1,448	1,781	1,606	1,890	1,920	2,060	2,248	2,705	2,097	2,283	2,474	2,983	2,584
Exports (Monthly)	1,220	1,379	1,578	1,517	1,720	1,670	1,658	2,305	1,550	1,551	1,656	1,863	1,504
Foreign Trade Balance (Monthly)	-229	-402	-28	-373	-200	-389	-590	-400	-547	-732	-818	-1,120	-1,080
Imports (Last 12 months)	27,177	26,584	25,721	25,015	24,535	24,277	23,930	23,270	23,214	23,744	24,237	25,495	26,631
Exports (Last 12 months)	15,353	15,850	16,247	16,643	17,103	17,357	17,724	18,106	18,343	18,700	19,036	19,666	19,951
Foreign Trade Balance (Last 12 months)	-11,824	-10,734	-9,474	-8,372	-7,431	-6,920	-6,206	-5,164	-4,871	-5,044	-5,201	-5,829	-6,680
BALANCE OF PAYMENTS ($ Million)													
Current Account Balance (Monthly)	581	490	799	498	596	341	101	129	604	-26	-144	-245	. .
Current Account Balance (Last 12 months)	-4,264	-2,882	-1,591	-471	580	918	1,729	2,705	3731	3984	4311	3724	. .
Capital Account and Reserve Movements (Last 12 months)													
Net Foreign Direct Investment	541	497	483	515	493	489	525	560	562	590	617	590	. .
Portfolio Investment	4,442	3,899	3,156	2,905	2,868	2,566	1,246	1,182	889	787	-763	-605	. .
Net Long-Term Capital	796	503	123	-420	-539	-440	-637	-832	-1025	-1037	-1255	-811	. .
Net Short-Term Capital	-1,544	-2,645	-3,143	-3,999	-5,036	-5,007	-5,404	-5,141	-4120	-2322	-1895	-655	. .
Net Errors and Omissions	-3,303	-2,015	-1,003	414	1,216	877	1,983	1,755	2962	3433	5851	5379	. .
Reserve Changes (*)	3,332	2,643	1,975	1,056	418	597	558	-229	-2999	-5438	-6866	-7622	. .

(*): Positive sign indicates decrease in reserves

(. .): not available

	1994								1995				
	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May
CONSOLIDATED BUDGET (Billion TL)													
Monthly (Current prices)													
Revenues	58,138	67,582	68,515	76,576	71,844	77,984	81,246	92,552	82,323	82,050	91,394	86,468	134,724
Expenditures	51,803	59,577	82,700	79,482	81,683	84,476	60,810	184,308	76,792	123,909	109,006	160,824	121,777
Primary Balance	20,597	26,333	8,866	28,736	22,717	21,911	27,024	-4,868	27,036	18,205	31,626	-11,018	12,944
Budget Balance	6,335	8,005	-14,185	-2,906	-9,839	-6,492	20,436	-91,756	5,531	-41,859	-17,612	-74,356	12,947
Budget Balance*	1,672	2,073	-3,642	-726	-2,333	-1,441	4,261	-17,660	982	-6,946	-2,754	-11,185	1,915
Budget Balance**	0.187	0.253	-0.458	-0.091	-0.290	-0.186	0.563	-2.446	0.137	-1.020	-0.423	-1.761	0.301
Financing	-11,282	-1,069	9,475	9,522	14,629	19,476	7,440	33,392	18,887	30,703	24,649	66,511	-5,930
For. Borrowing (Net)	-6,906	-10,697	-10,825	-10,233	-16,285	-9,912	-6,298	-11,968	-11,171	-8,577	-20,971	1,870	-23,494
Dom. Borrowing(Net)	-4,416	-585	-1,667	-17,568	-8,565	-17,624	-2,901	-13,818	-958	-47	43,732	52,869	-12,755
Short-term Borrowing	5,725	24,566	16,646	49,621	30,181	51,191	17,205	43,228	46,956	43,660	329	-4,360	33,346
Central Bank (Net)	-6,927	-21,734	3,959	5,993	-5,735	9,029	8,952	7,297	-3,539	-1,109	3,873	34,687	-18,720
Treasury Bills (Net)	12,652	46,300	12,687	43,628	35,916	42,162	8,253	35,931	50,495	44,769	-3,544	-39,047	52,066
Other	-5,685	-14,353	5,321	-12,298	9,298	-4,179	-566	15,950	-15,940	-4,333	1,559	16,132	-3,027
Last 12 months (Current prices)													
Revenues	463,480	502,087	542,459	587,861	628,661	671,206	708,340	753,440	798,584	843,588	897,682	936,672	1,013,258
Expenditures	594,990	627,468	675,738	720,173	764,769	807,268	792,707	899,375	934,611	1,006,719	1,046,284	1,155,370	1,225,344
Primary Balance	15,749	37,410	48,793	76,856	98,381	118,763	144,953	152,349	173,794	199,244	236,798	217,165	209,512
Budget Balance	-131,510	-125,381	-133,279	-132,312	-136,108	-136,062	-84,367	-145,935	-136,027	-163,131	-148,602	-218,698	-212,086
Budget Balance*	-61,348	-60,430	-60,378	-58,912	-57,955	-55,959	-36,250	-39,412	-36,431	-37,261	-27,736	-37,696	-37,453
Budget Balance**	-8,867	-8,794	-8,689	-8,447	-8,228	-7,890	-4,987	-5,284	-4,857	-5,045	-3,907	-5,536	-5,422
Financing	133,565	129,218	133,686	135,911	131,893	136,514	138,443	145,681	155,263	162,784	162,081	222,333	227,685
For. Borrowing (Net)	22,793	10,875	-1,170	-13,300	-28,832	-35,839	-42,786	-68,515	-78,847	-87,847	-116,715	-121,973	-138,561
Dom. Borrowing(Net)	20,343	18,897	18,020	-3,401	-21,088	-49,547	-53,737	-70,338	-76,932	-73,191	-27,307	28,452	20,113
Short-term Borrowing	98,001	121,395	130,697	176,710	194,079	240,943	253,864	296,073	327,484	350,599	336,563	324,948	352,569
Central Bank (Net)	82,412	65,207	74,167	67,696	55,222	56,148	55,707	51,857	30,935	781	-739	34,746	22,953
Treasury Bills (Net)	15,589	56,188	56,530	109,014	138,857	184,795	198,157	244,216	296,549	349,818	337,302	290,202	329,616
Other	-7,572	-21,949	-13,861	-24,098	-12,266	-19,043	-18,898	-11,539	-16,442	-26,777	-30,460	-9,094	-6,436

** At 1987 prices*

*** Billion $*

	1994							1995					
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June**
MONEY SUPPLY (Annual percentage change)													
M1	69.3	83.5	88.6	92.6	86.4	91.7	80.6	85.5	115.5	119.4	120.6	107.3	105.5
Currency in circulation	89.1	95.6	102.0	98.8	95.5	95.2	98.7	103.9	125.7	127.0	105.7	105.4	106.6
Currency issued+coins	87.0	89.7	97.3	99.2	87.7	91.0	90.0	94.8	118.2	110.1	100.1	92.0	101.9
Cash in vault	71.7	54.2	62.8	134.8	32.3	60.8	50.2	43.4	68.3	88.4	70.1	19.1	64.5
Commercial sight deposits	45.5	72.1	71.8	84.2	80.9	92.4	62.7	72.1	96.9	116.9	119.1	109.0	93.4
Savings sight deposits	59.0	71.8	81.0	91.1	81.8	90.4	79.6	64.8	118.0	126.7	141.8	102.8	121.2
Other sight deposits	57.7	78.4	78.3	73.6	48.8	61.7	77.3	67.1	116.9	68.6	239.4	134.9	124.7
Central Bank's deposits	251.2	-53.7	-14.2	57.2	135.9	370.3	-41.2	463.9	315.9	49.6	-23.5	123.1	-85.8
M2	109.1	136.8	127.9	127.0	116.9	126.2	120.1	128.1	149.8	173.5	159.9	130.0	107.0
Commercial time deposits	135.6	221.3	146.3	168.3	149.7	190.7	208.0	190.2	243.8	410.2	381.1	239.7	133.5
Savings time deposits	164.1	206.1	184.2	182.0	165.7	176.9	178.9	191.3	194.6	229.0	201.6	149.3	108.8
Other time deposits	66.3	84.4	86.3	75.1	75.9	79.4	88.1	79.3	106.7	125.5	107.6	102.3	95.9
Certificates of deposits	20.9	77.9	69.4	76.2	46.6	61.4	52.0	56.4	61.4	87.0	103.0	107.0	94.5
M2Y	127.5	140.1	140.0	138.4	138.4	138.8	133.3	122.1	137.3	144.7	110.5	108.8	99.5
Foreign exchange deposits (TL)	153.4	146.1	155.9	152.3	163.8	152.8	148.5	116.8	125.8	120.4	72.9	88.4	90.8
Foreign exchange deposits ($)	-13.6	-9.0	-7.7	-9.8	-4.5	-5.6	-6.5	-7.6	-0.9	17.4	36.4	38.6	40.7
TL/US$ Buying Rate	193.2	170.5	177.1	179.6	176.3	167.9	165.7	134.6	127.9	87.8	26.8	35.9	35.6
M3Y	120.4	138.0	137.8	137.2	137.8	137.6	133.1	119.7	135.7	144.5	111.6	114.3	102.6
M3	99.0	132.3	125.4	125.7	117.4	125.1	120.5	122.8	145.3	170.8	159.8	140.0	112.4
Foreign exchange deposits (TL)	153.4	146.0	155.8	152.0	163.8	152.8	148.5	116.8	125.8	120.4	72.9	88.4	90.8
Credit Stock	54.6	87.8	86.5	92.9	82.5	80.4	84.5	89.2	82.1	89.0	92.5	110.7	110.5
Central Bank Direct Credits	91.3	119.0	115.5	147.6	107.8	107.7	78.5	49.7	15.9	14.7	37.4	48.1	-1.1
Deposit Bank Credits	41.5*	37.7*	37.6*	31.6*	34.0*	31.5*	45.3*	61.4*	72..8*	74.0*	78.9*	105.1*	116.0*
Invest. and Develop. Bank Credits	88.5	120.2	117.1	114.7	110.0	100.2	96.9	110.0	83.7	96.4	69.1	65.0	86.4

(*) Adjusted for changes in data definition after 1.7.1994
(**) By June 23, 1995

EXPENDITURE ON GROSS DOMESTIC PRODUCT

(At 1987 Prices)	Growth Rate (%)			% Share			Annual Growth Rate (%)				
	1992	1993	1994	1992	1993	1994	1994-1	1994-2	1994-3	1994-4	1995-1
Private Final Consumption Expenditure	**2.9**	**8.4**	**-7.5**	**71.3**	**70.5**	**68.9**	**5.9**	**-10.2**	**-7.5**	**-7.5**	**-4.7**
Food-Beverages	-1.6	3.7	-0.4	24.4	23.1	24.3	5.0	-3.8	-2.4	-0.4	-1.1
Durable Goods	11.6	21.2	-36.0	11.4	12.6	8.5	6.9	-44.9	-39.0	-36.0	-18.9
Semi-Durable & Non-Durable Goods	-2.7	5.0	-12.4	12.2	11.7	10.8	6.6	-18.9	-23.3	-12.4	-11.0
Energy-Transportation-Communication	10.7	10.3	2.3	11.2	11.3	12.2	7.5	3.9	3.9	2.3	1.3
Services	5.2	12.6	6.2	6.1	6.3	7.1	7.0	-2.2	9.2	6.2	2.7
Ownership of Dwelling	2.8	2.6	2.4	6.0	5.6	6.0	2.9	3.0	2.9	2.4	2.1
Government Final Consumption Expenditure	**9.2**	**2.3**	**-7.6**	**10.5**	**9.8**	**9.6**	**0.8**	**-4.5**	**-0.4**	**-7.6**	**6.9**
Compensation of Employees	3.4	3.0	-0.2	4.8	4.5	4.7	2.0	2.0	-0.6	-0.2	2.7
Purchases of Goods & Services	14.7	1.8	-13.8	5.7	5.3	4.9	-3.1	-16.9	-0.1	-13.8	21.5
Gross Fixed Capital Formation	**2.0**	**31.9**	**-25.3**	**27.4**	**32.9**	**26.0**	**8.2**	**-20.1**	**-18.7**	**-25.3**	**-16.9**
Public Sector	**1.2**	**12.1**	**-31.6**	**10.5**	**10.7**	**7.7**	**-7.9**	**-47.1**	**-38.9**	**-31.6**	**-37.5**
Machinery & Equipment	3.2	-2.4	-58.9	3.9	3.5	1.5	-41.0	-70.3	-72.3	-58.9	-15.3
Building Construction	1.0	6.6	-19.7	2.0	1.9	1.6	-8.6	-64.1	-34.2	-19.7	-28.1
Other Construction	-0.4	26.9	-18.2	4.6	5.3	4.6	25.3	-11.3	-4.9	-18.2	-50.8
Private Sector	**2.5**	**44.1**	**-22.2**	**16.9**	**22.2**	**18.3**	**11.4**	**-10.7**	**-10.8**	**-22.2**	**-13.5**
Machinery & Equipment	-0.2	68.1	-37.5	9.6	14.6	9.7	14.9	-26.1	-32.3	-37.5	-25.9
Building Construction	6.1	13.0	7.3	7.4	7.6	8.6	7.1	7.9	8.0	7.3	2.5
Change in Stocks	-	-	-	**-6.7**	**-5.8**	**-6.7**	-	-	-	-	-
Exports of Goods & Services	**9.4**	**13.2**	**15.4**	**20.0**	**20.6**	**25.2**	**6.1**	**10.1**	**26.7**	**15.4**	**19.7**
Imports of Goods & Services	**3.8**	**36.6**	**-22.4**	**-22.5**	**-28.0**	**-23.0**	**7.5**	**-34.0**	**-31.9**	**-22.4**	**-2.6**
Gross Domestic Product (Expenditure based)	**4.6**	**9.7**	**-5.5**	**100.0**	**100.0**	**100.0**	**4.3**	**-9.6**	**-6.2**	**-5.5**	**-1.5**
Statistical Discrepancy	-	-	-	**-0.6**	**-1.7**	**-1.7**	-	-	-	-	-
Gross Domestic Product (Production based)	**5.5**	**8.4**	**-5.4**	-	-	-	**5.1**	**-10.6**	**-7.9**	**-5.4**	**-1.4**

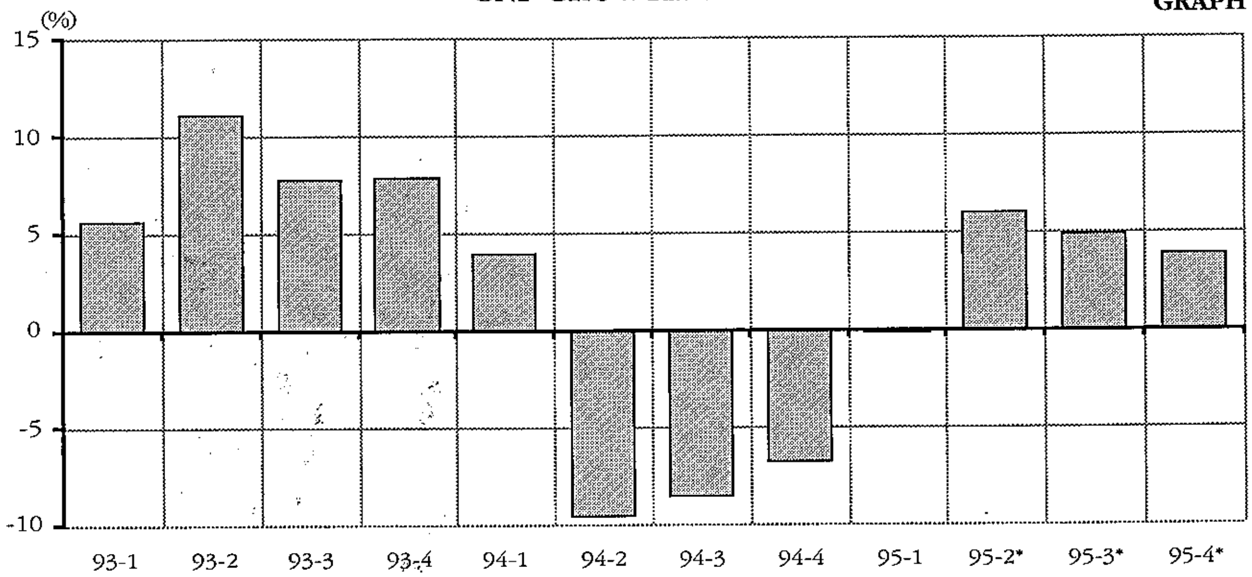
TÜSİAD ESTIMATES

	93-1	93-2	93-3	93-4	93	94-1	94-2	94-3	94-4	94	95-1	95-2	95-3	95-4	95
	Realization					Realization					Estimate				
(25 April 1995)															
Growth Rate	5.6	11.1	7.8	7.9	8.1	4.0	-9.6	-8.6	-6.8	-6.0	-4.4	3.9	4.9	4.8	2.8
Inflation Rate	52.9	57.3	62.8	59.6	58.4	67.8	133.9	128.3	141.3	120.7	149.9*	79.9	77.9	71.7	88.0
(25 July 1995)															
Growth Rate	5.6	11.1	7.8	7.9	8.1	4.0	-9.6	-8.6	-6.8	-6.0	-0.2*	6.0	4.9	3.9	3.8
Inflation Rate	52.9	57.3	62.8	59.6	58.4	67.8	133.9	128.3	141.3	120.7	149.9*	82.0*	77.9	71.7	88.5

** Realization*

GNP GROWTH RATE

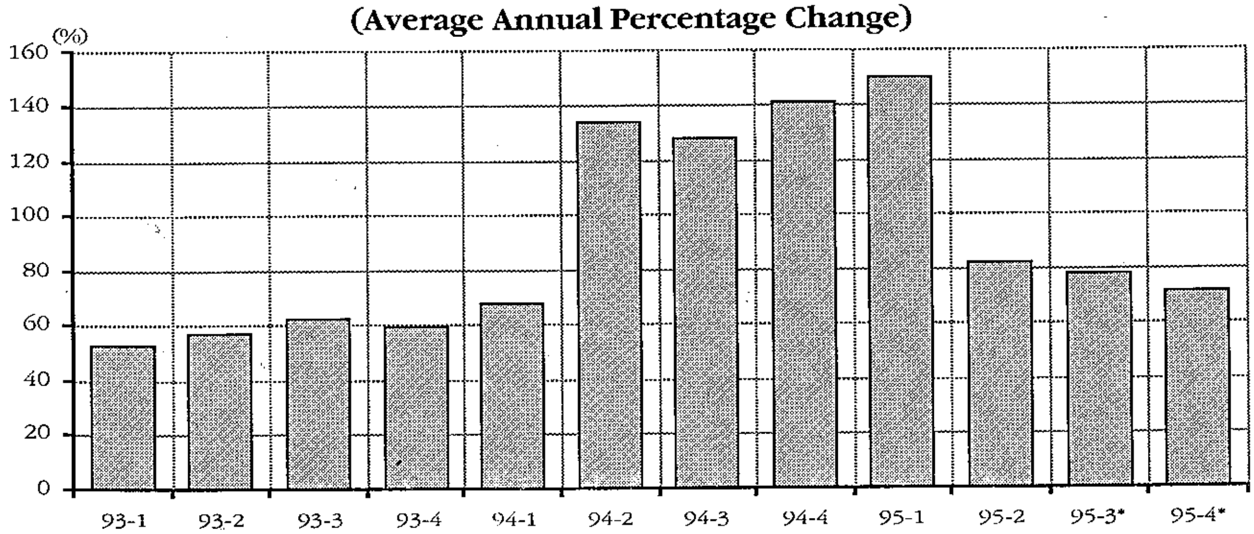
GRAPH 1



** Estimate*

WHOLESALE PRICE INDEX
(Average Annual Percentage Change)

GRAPH 2

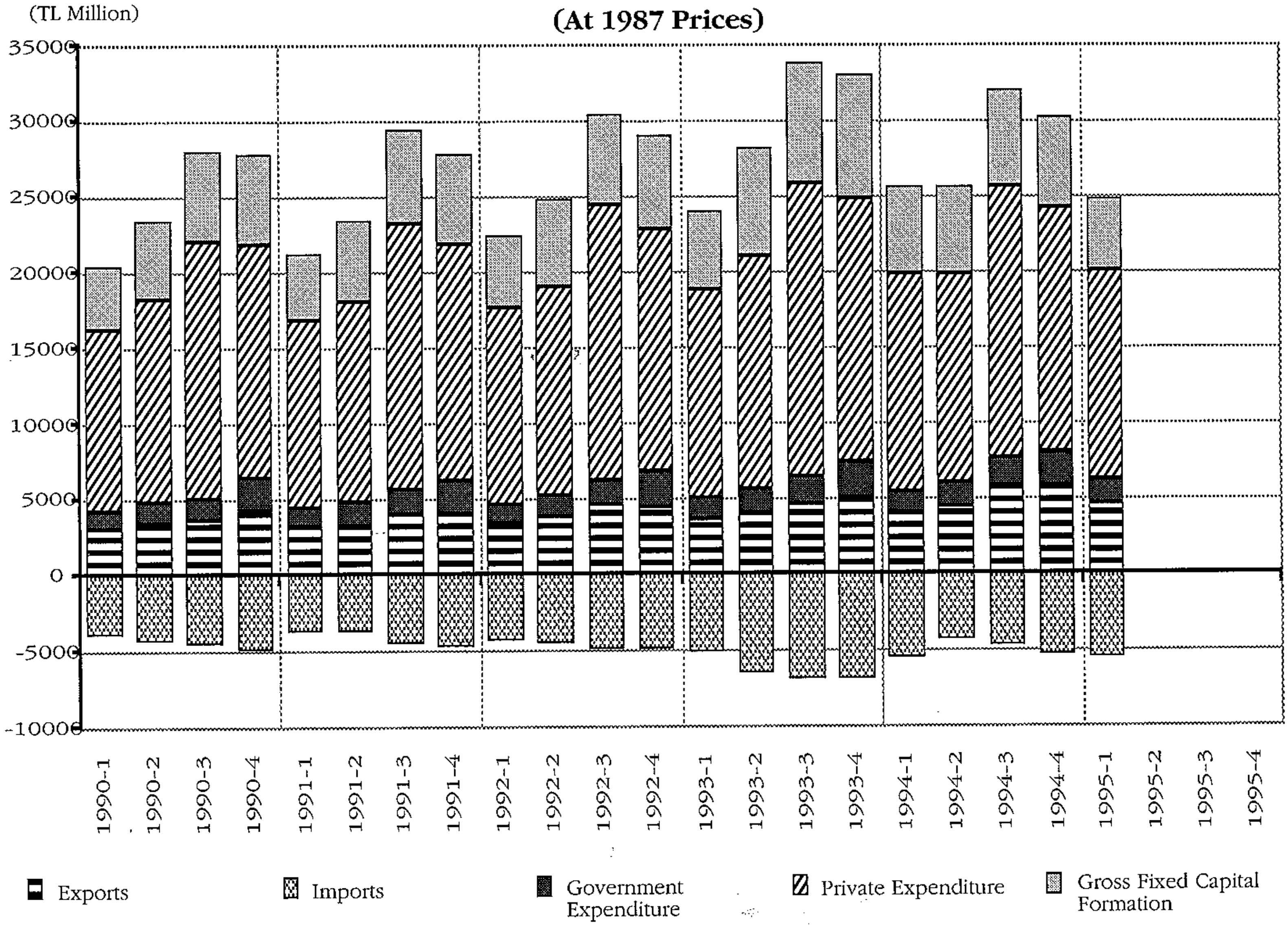


** Estimate*

GRAPH 3

EXPENDITURE ON GROSS DOMESTIC PRODUCT

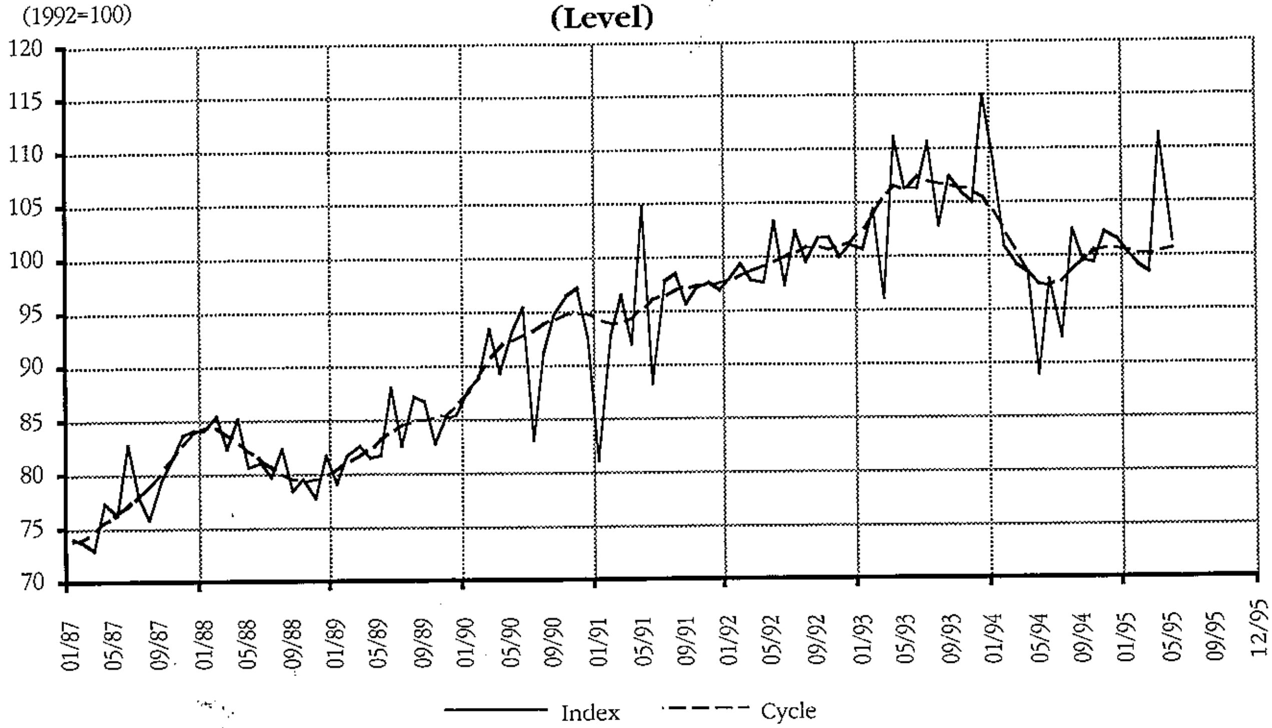
(At 1987 Prices)



GRAPH 4

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX

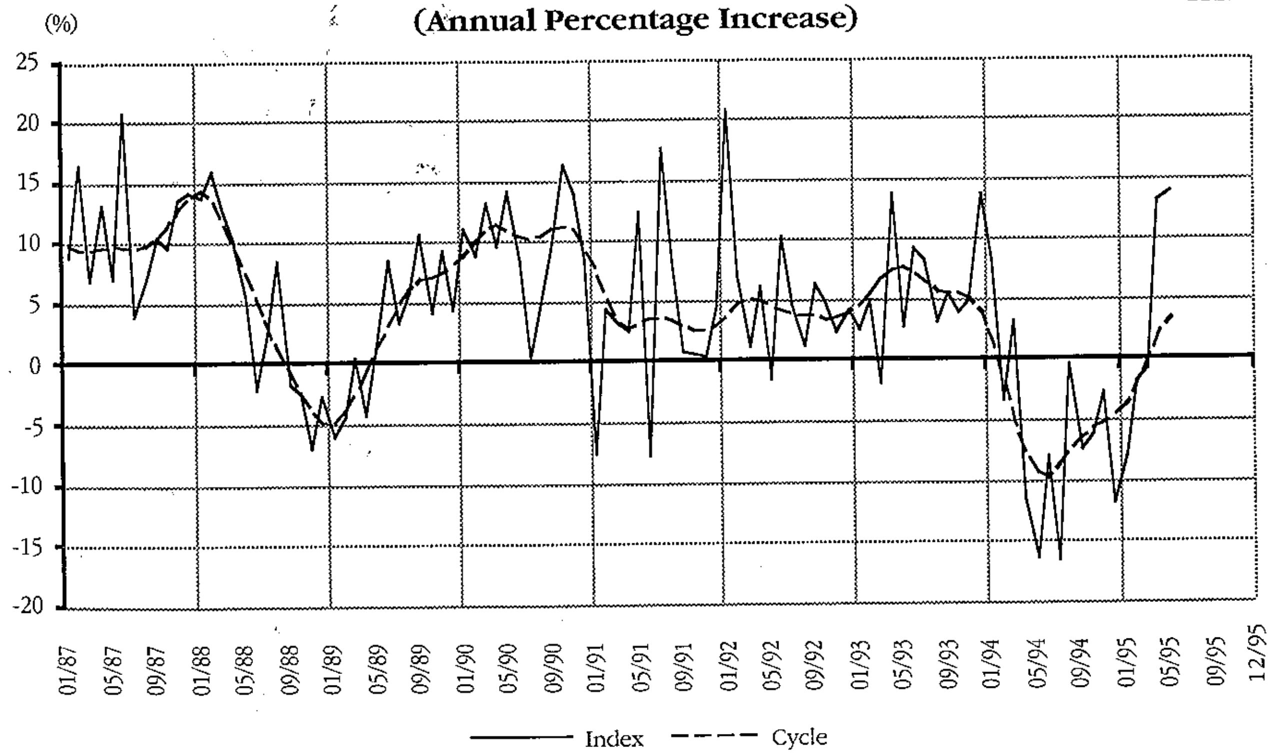
(Level)



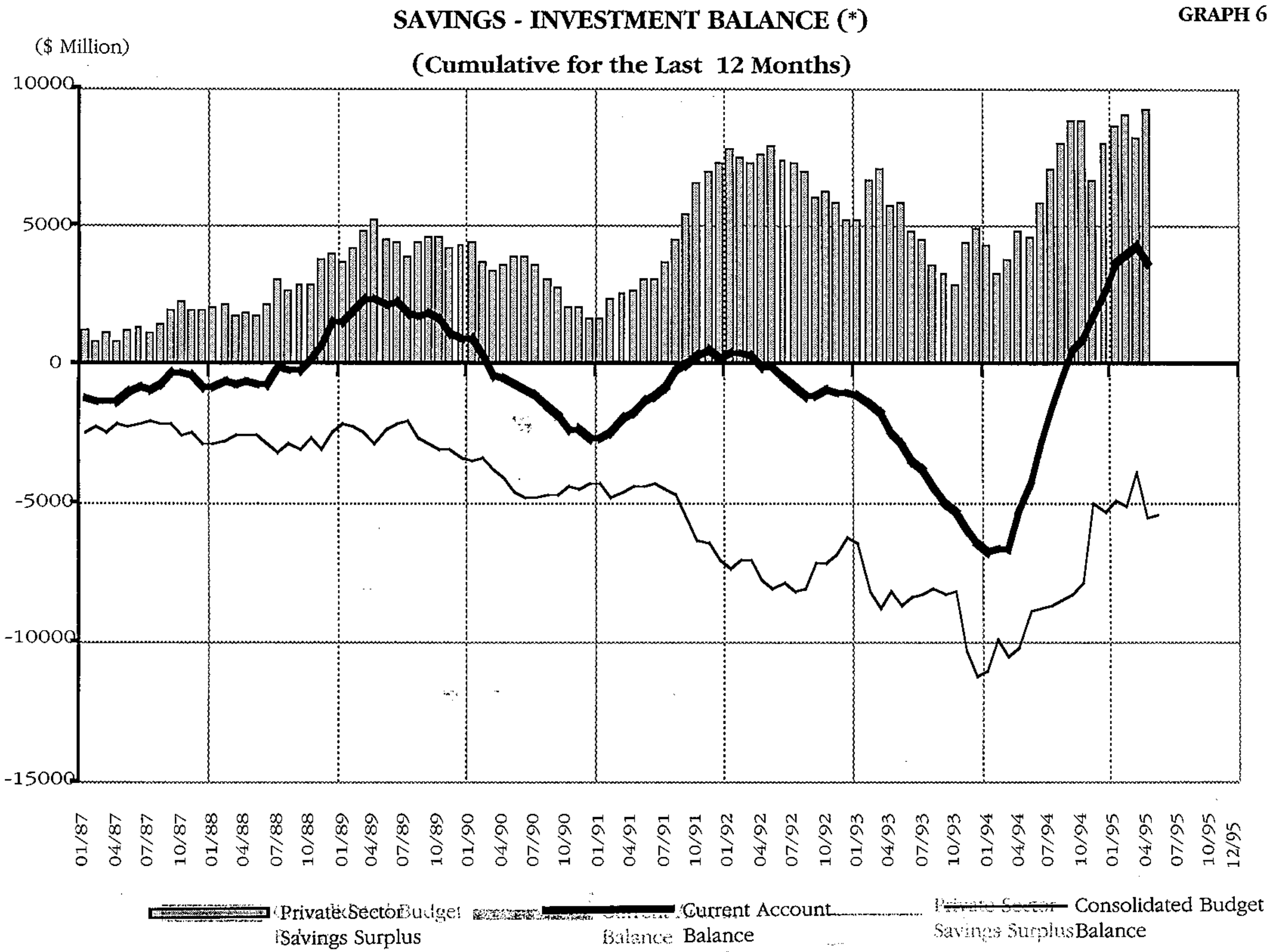
GRAPH 5

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX

(Annual Percentage Increase)



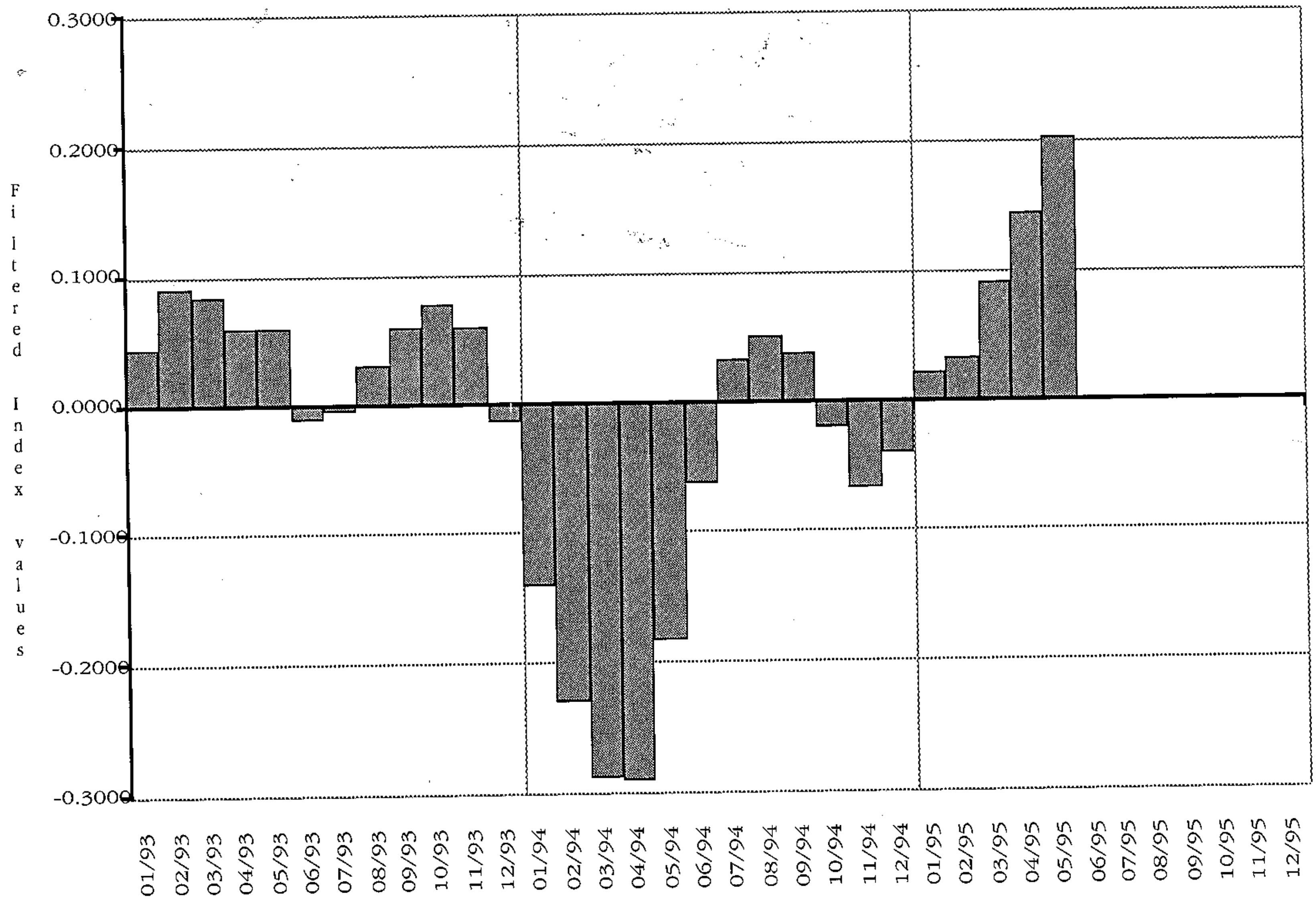
GRAPH 6



* Consolidated budget balance is used as a proxy for the public sector savings gap due to lack of monthly data on the latter. Private sector savings surplus figures are calculated as the sum of budget deficit and current account balance.

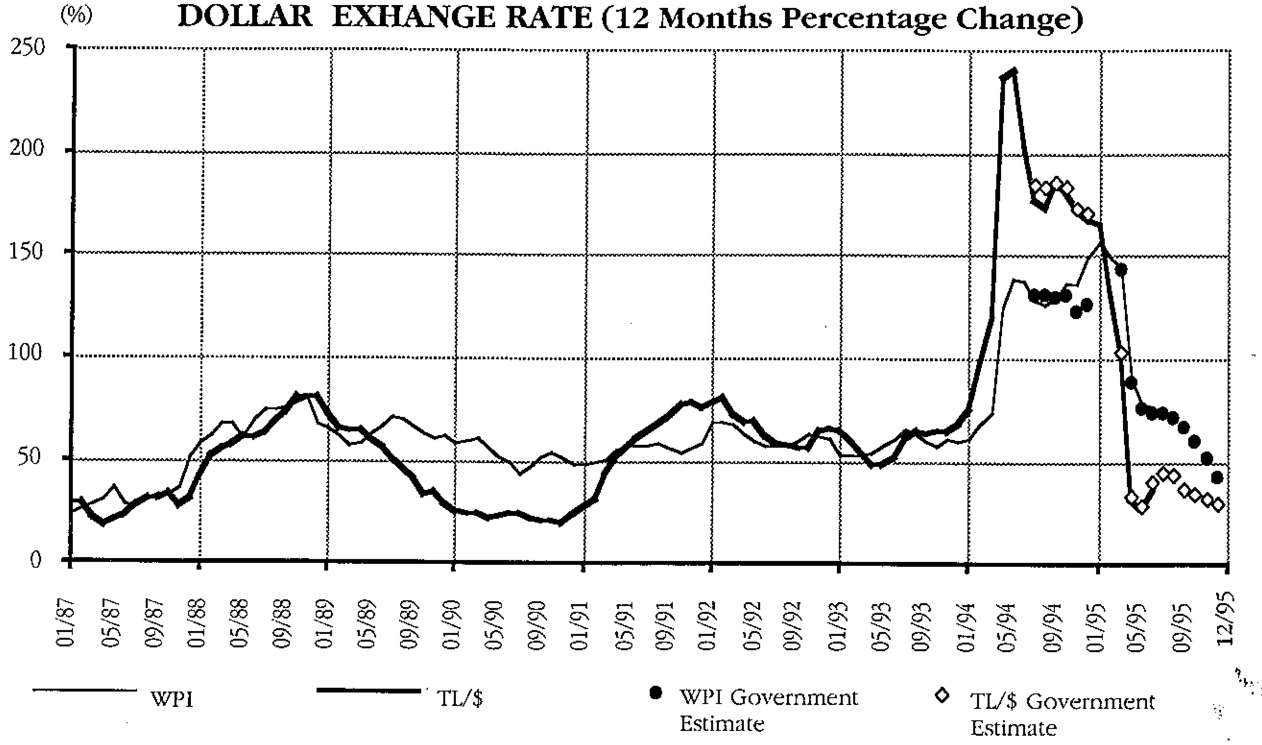
GRAPH 7

CHANGE IN LEADING INDICATOR INDEX



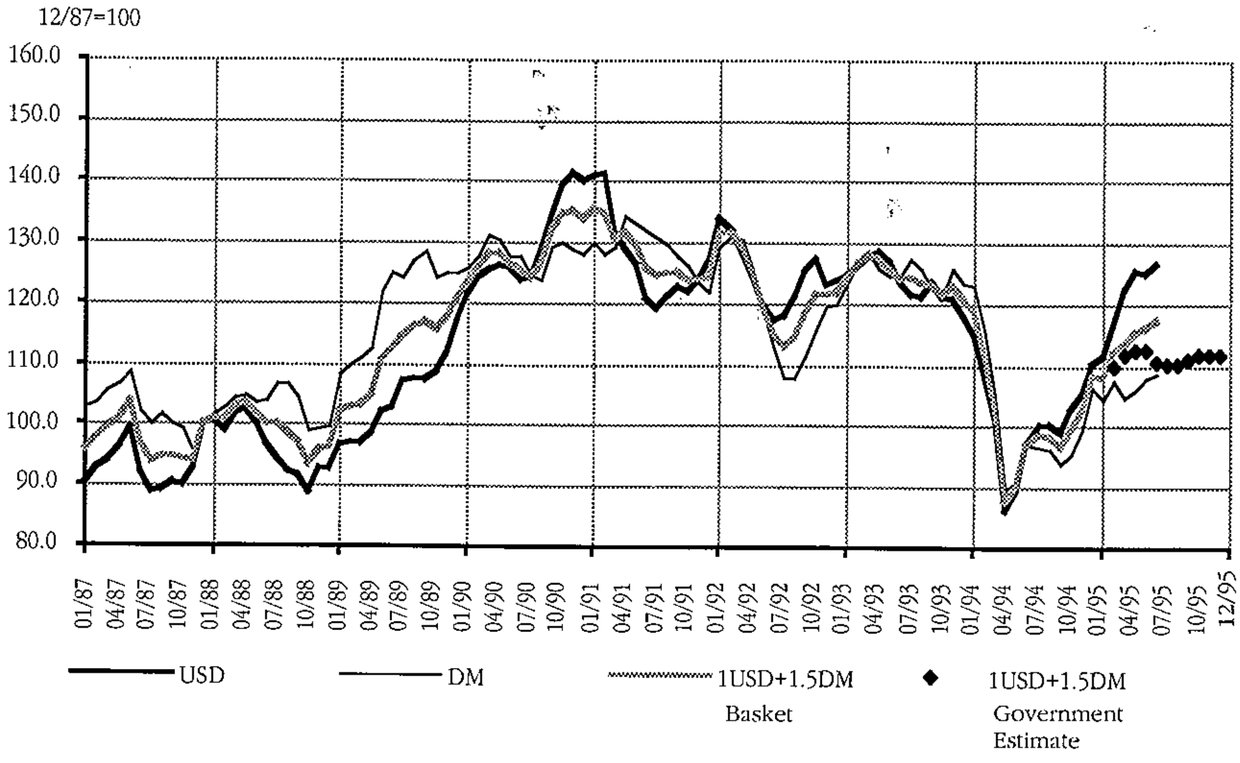
GRAPH 8

WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXHANGE RATE (12 Months Percentage Change)



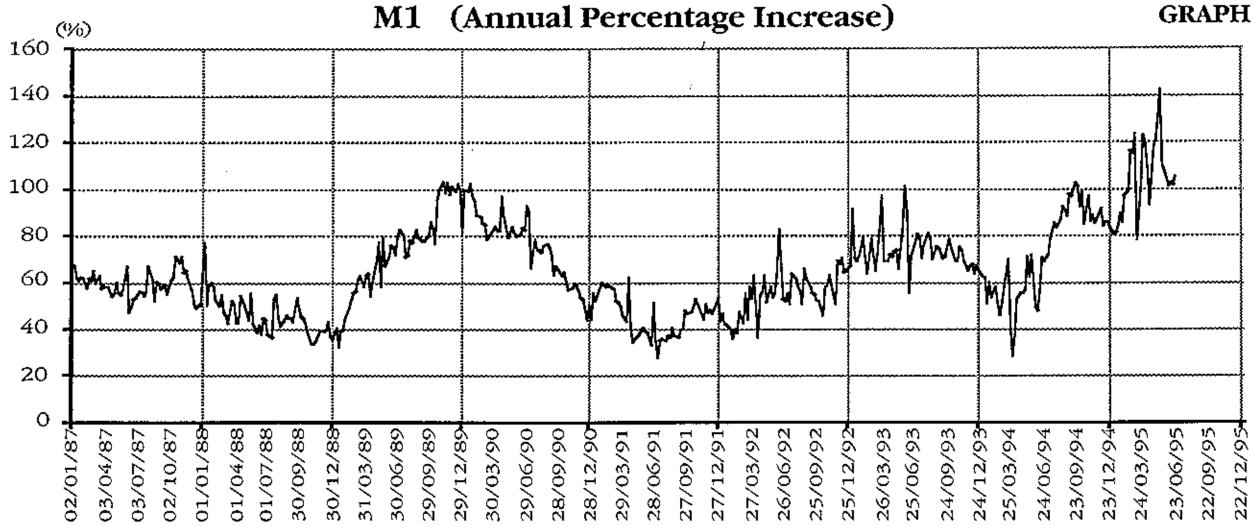
GRAPH 9

REAL EXCHANGE RATE INDEX



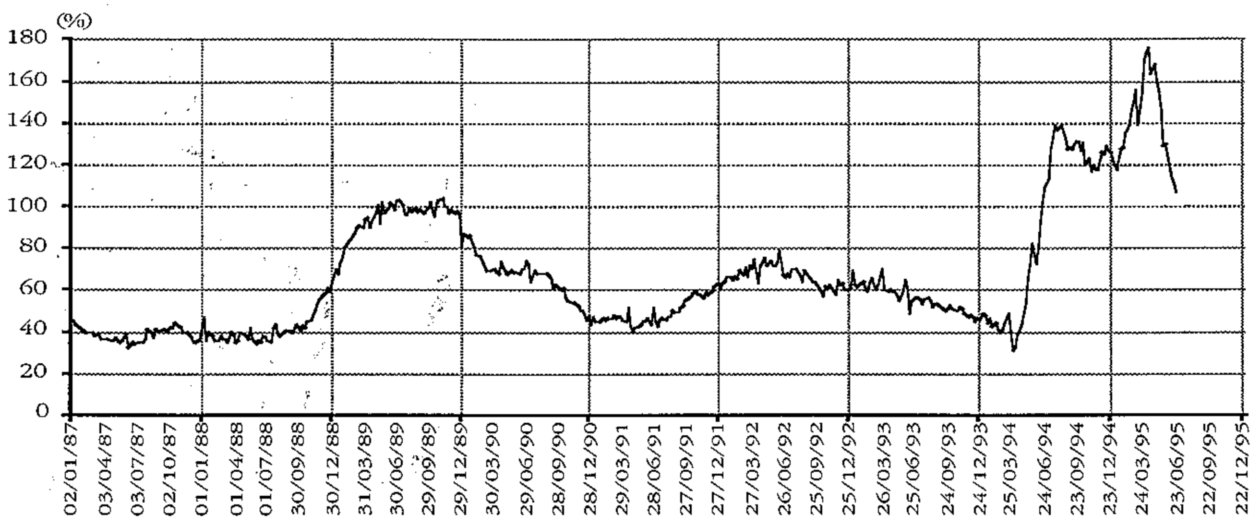
M1 (Annual Percentage Increase)

GRAPH 10



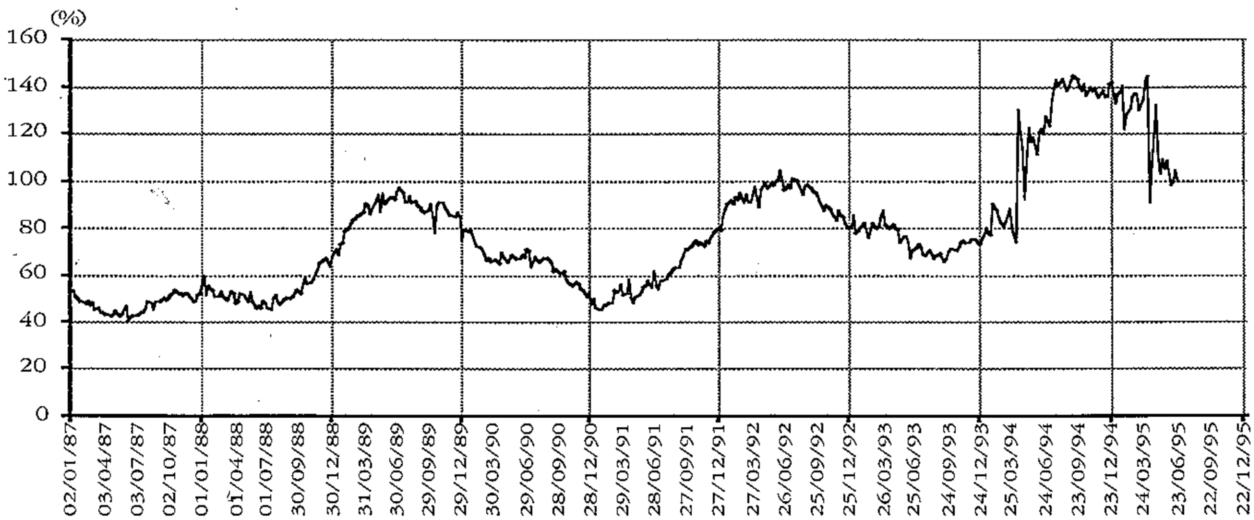
M2 (Annual Percentage Increase)

GRAPH 11



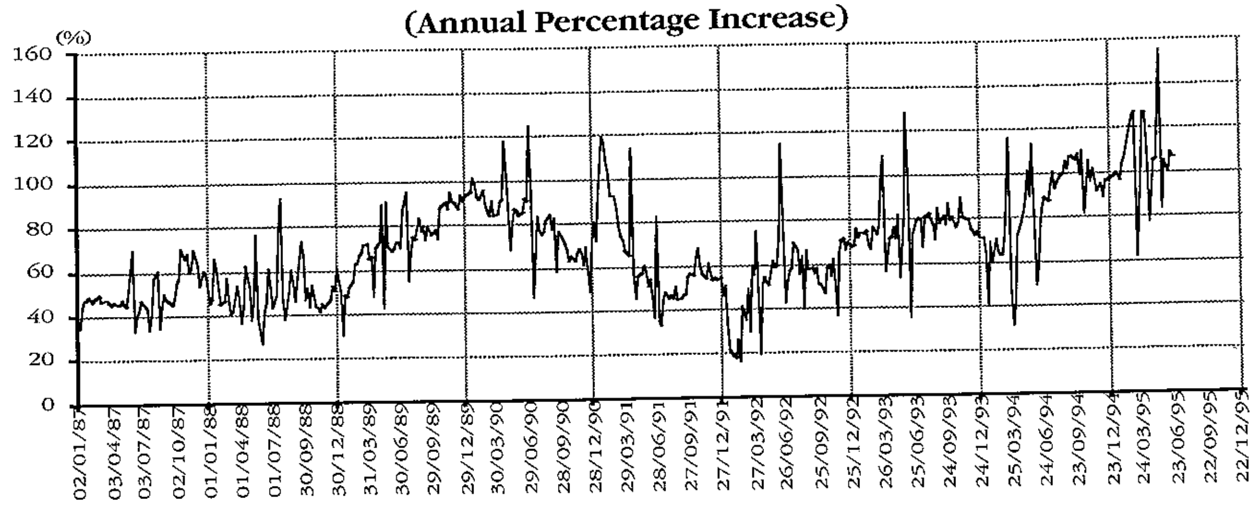
M2Y (Annual Percentage Increase)

GRAPH 12



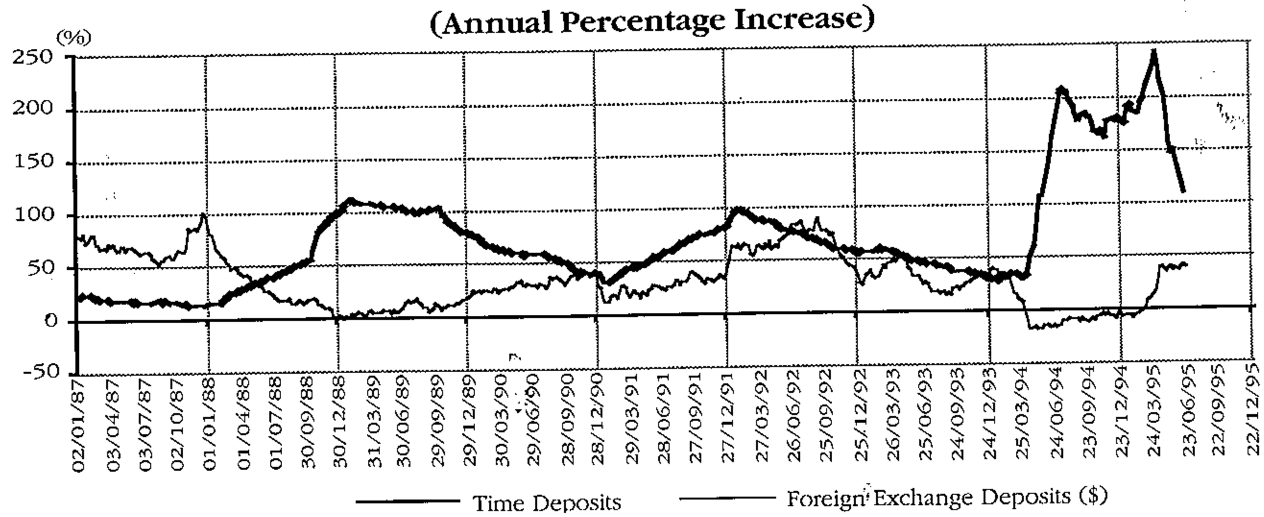
CURRENCY IN CIRCULATION
(Annual Percentage Increase)

GRAPH 13



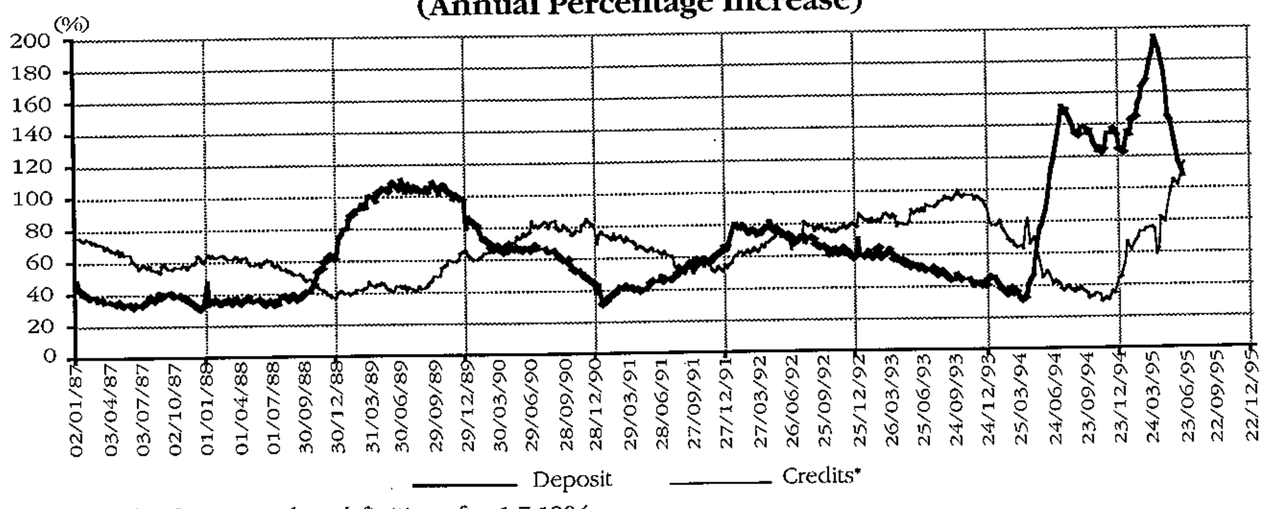
TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS
(Annual Percentage Increase)

GRAPH 14



DEPOSIT BANK CREDITS & DEPOSITS
(Annual Percentage Increase)

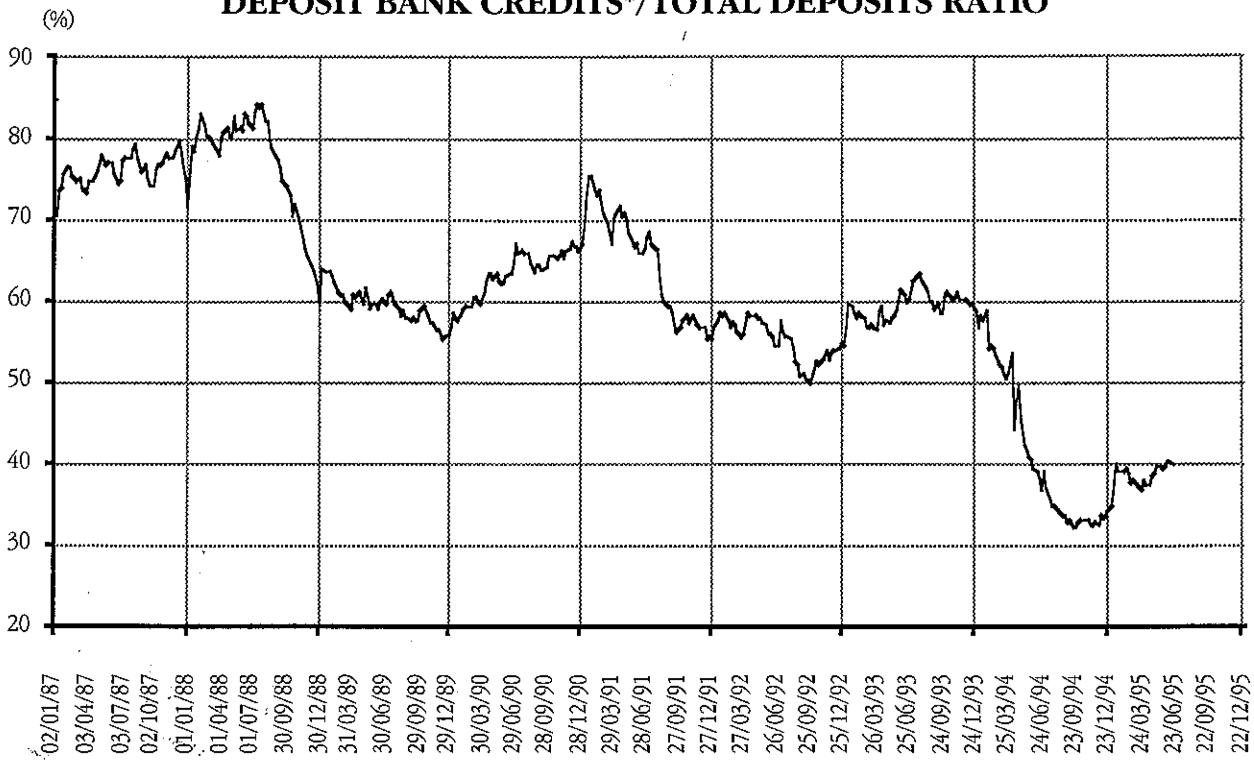
GRAPH 15



(*) Adjusted for changes in data definition after 1.7.1994.

GRAPH 16

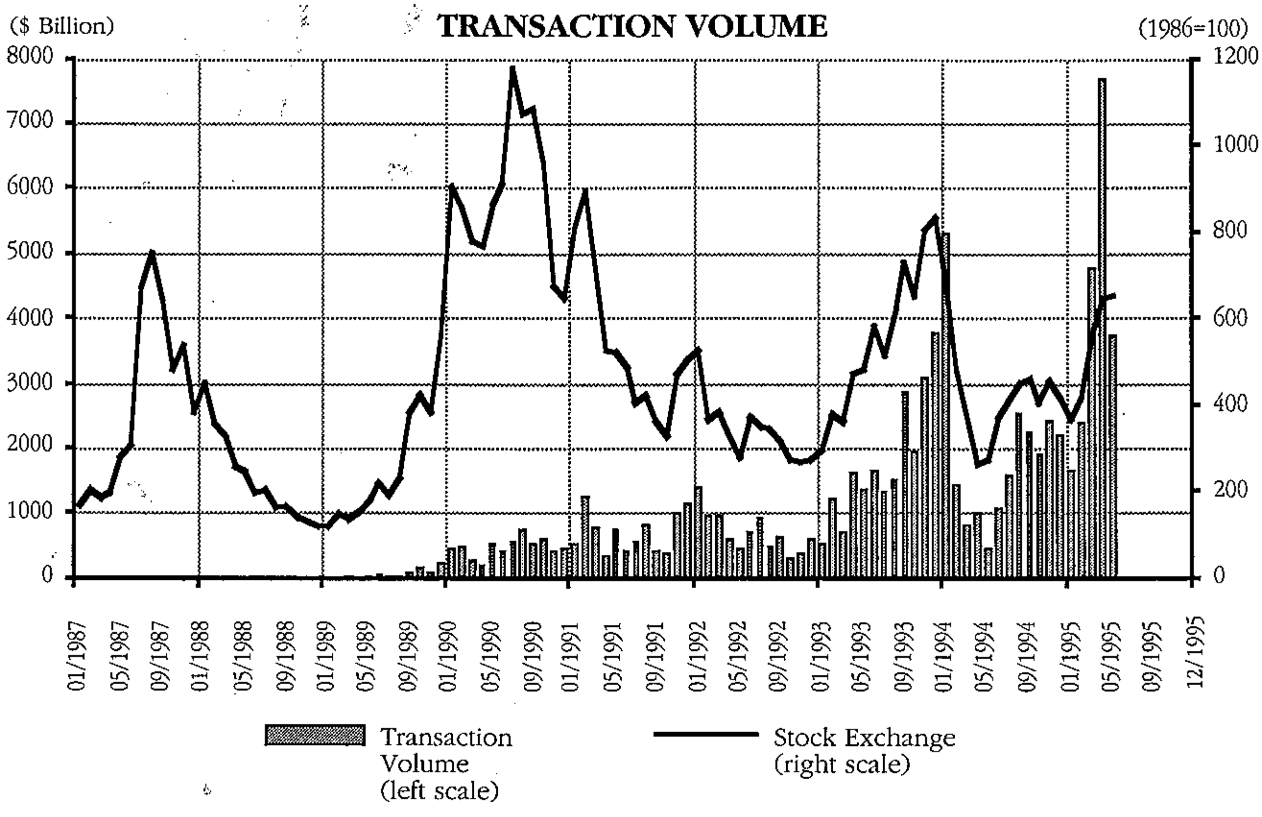
DEPOSIT BANK CREDITS*/TOTAL DEPOSITS RATIO



(*) Adjusted for changes in data definition after 1.7.1994.
Total deposits include Foreign Exchange Deposits in M2Y.

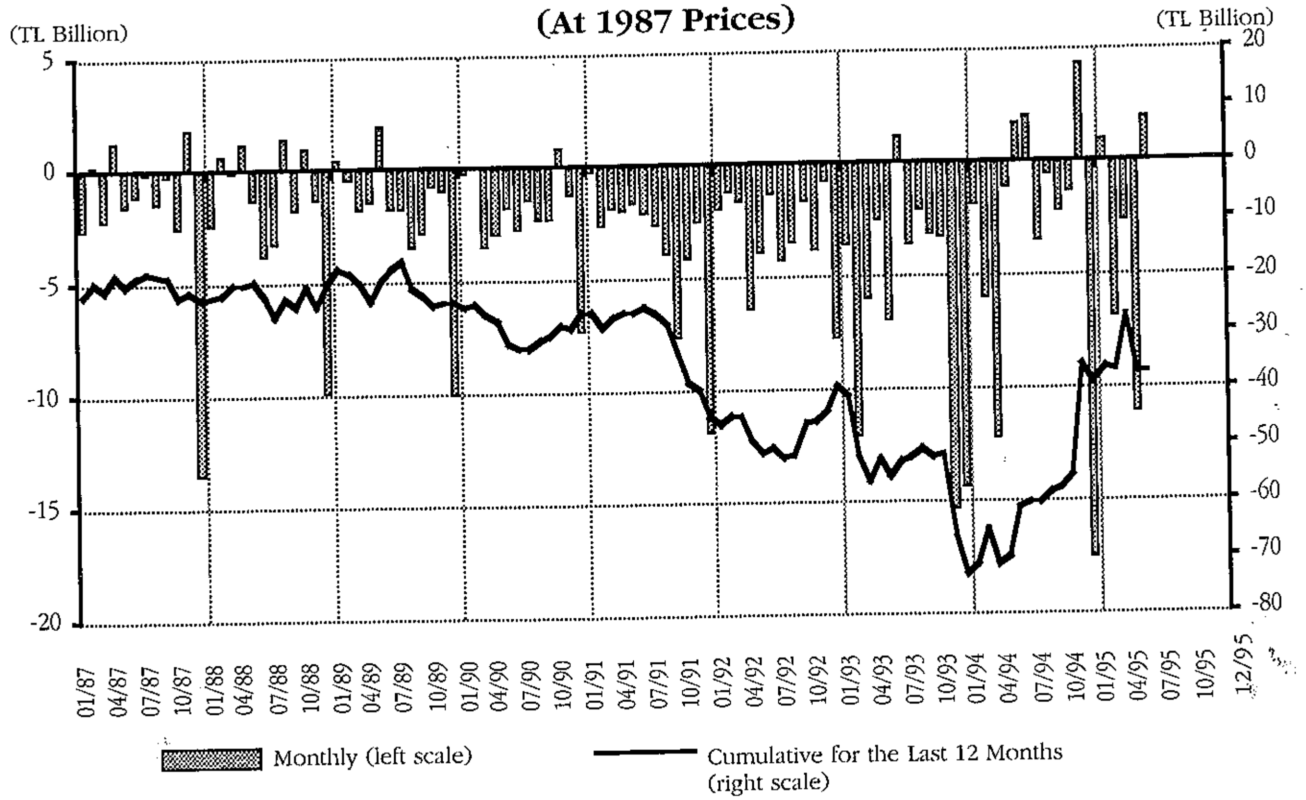
GRAPH 17

STOCK EXCHANGE INDEX AND TRANSACTION VOLUME



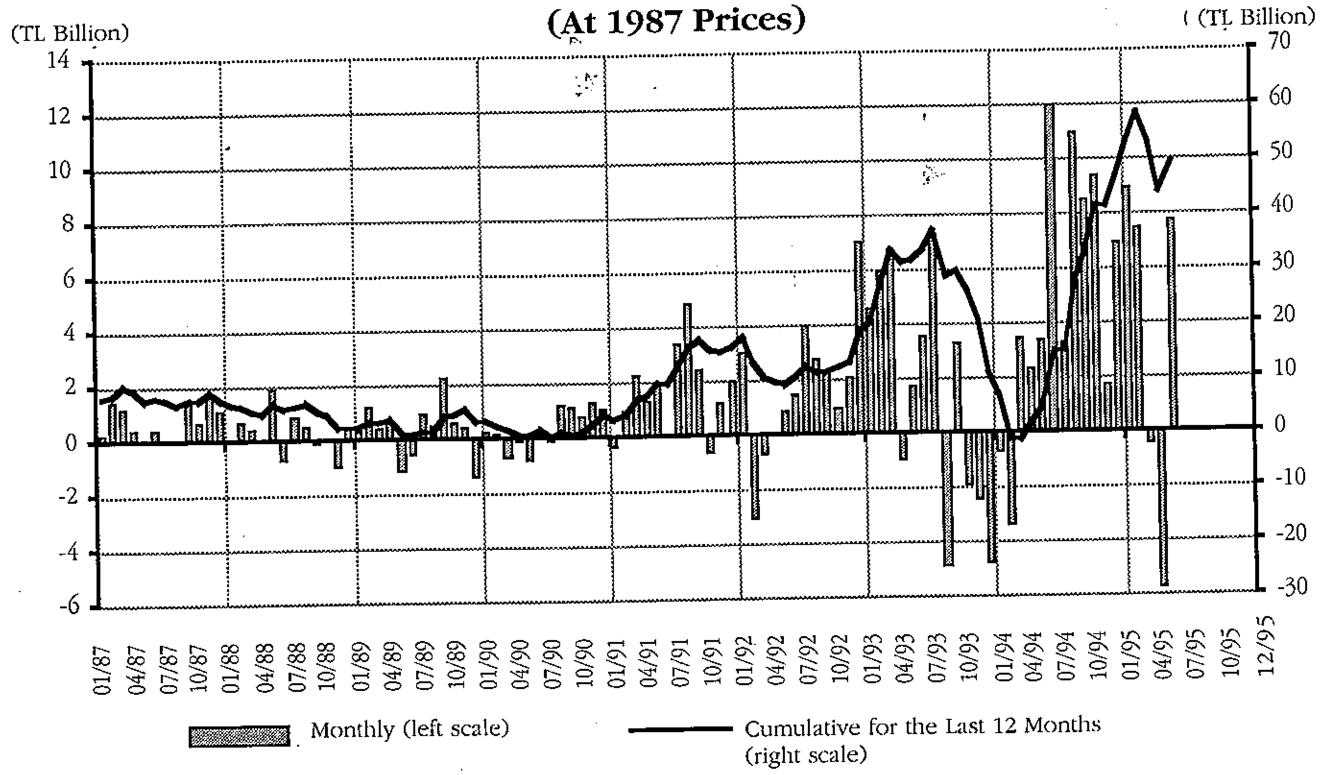
GRAPH 18

CONSOLIDATED BUDGET DEFICIT (At 1987 Prices)



GRAPH 19

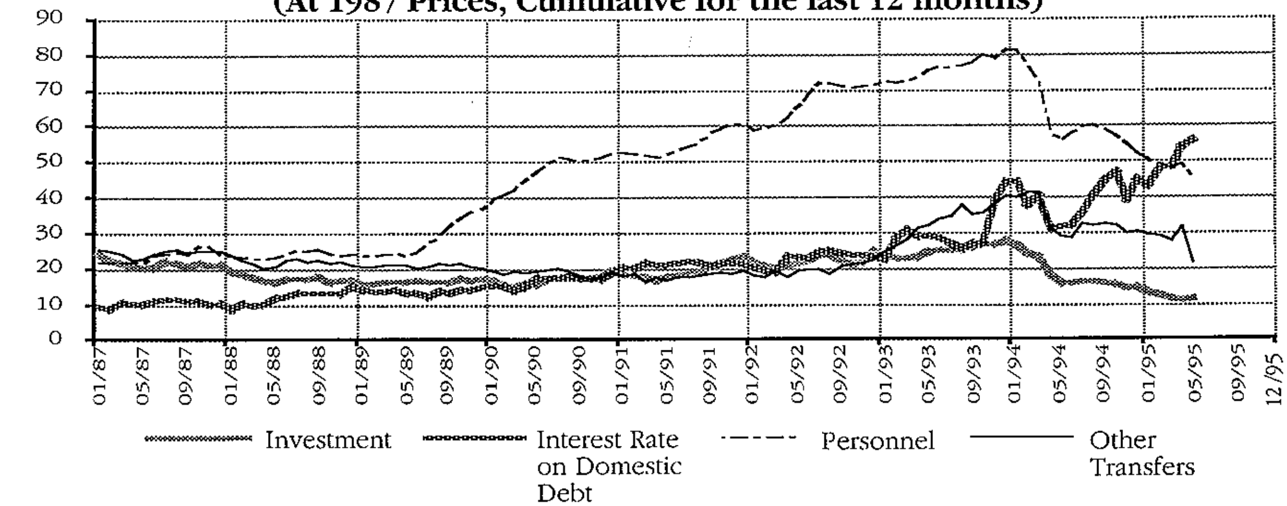
BORROWING BY TREASURY BILLS (NET) (At 1987 Prices)



CONSOLIDATED BUDGET EXPENDITURES

GRAPH 20

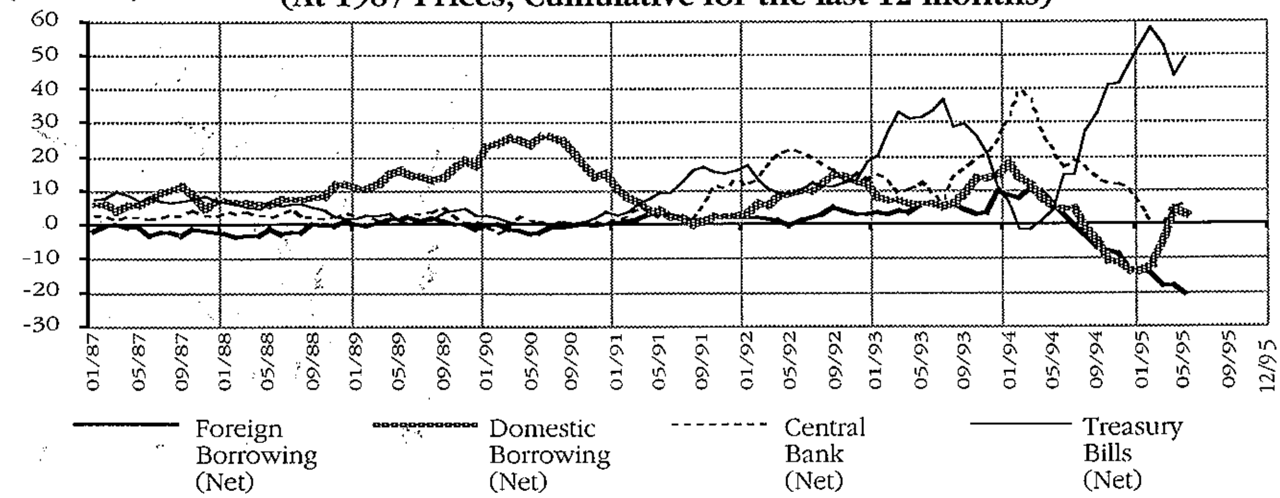
(At 1987 Prices, Cumulative for the last 12 months)



CONSOLIDATED BUDGET FINANCING

GRAPH 21

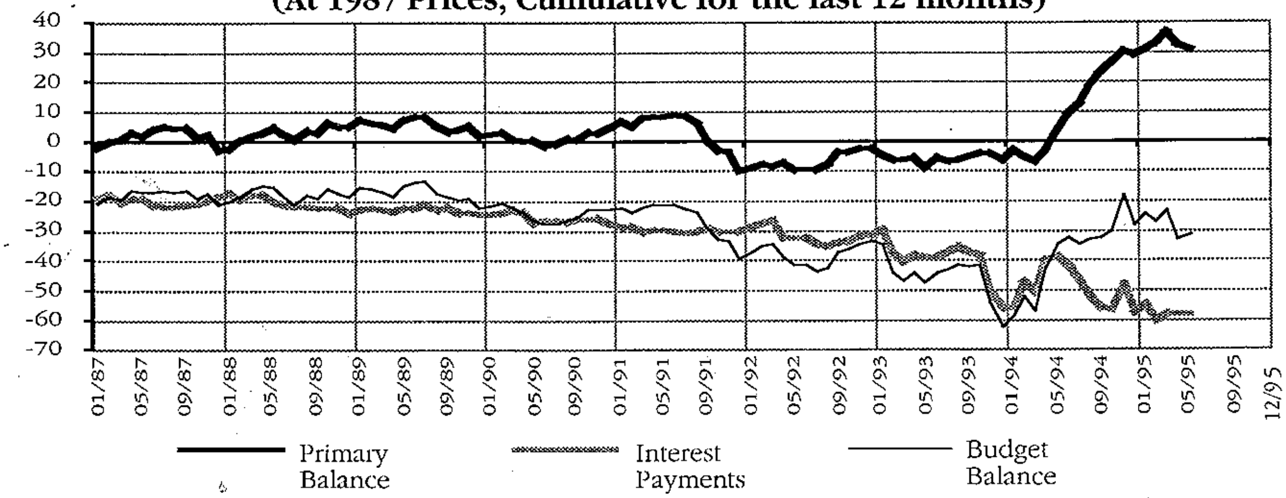
(At 1987 Prices, Cumulative for the last 12 months)



CONSOLIDATED BUDGET DEFICIT

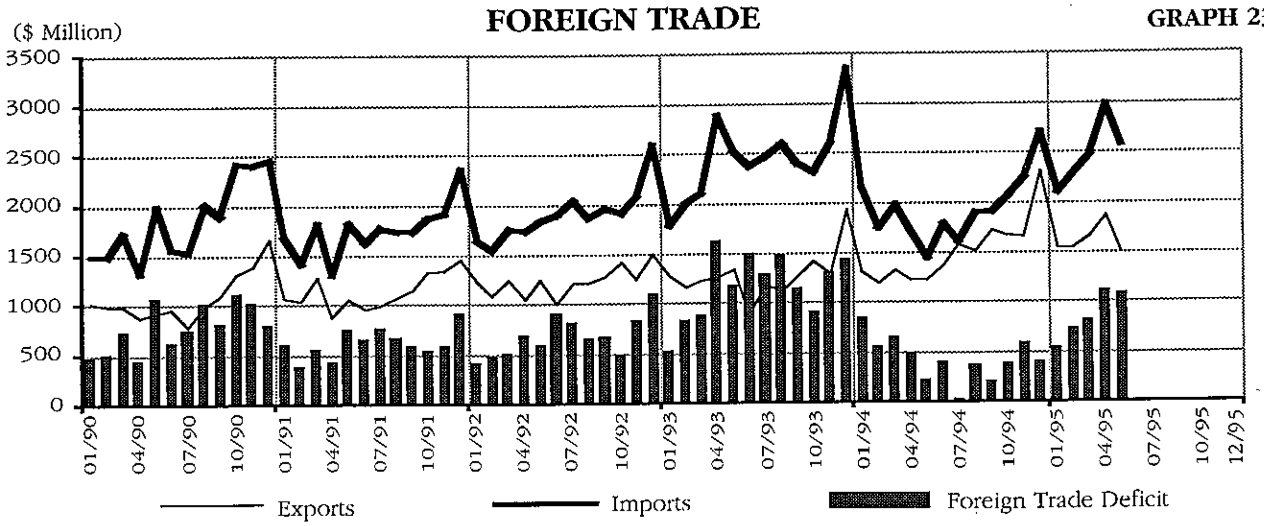
GRAPH 22

(At 1987 Prices, Cumulative for the last 12 months)



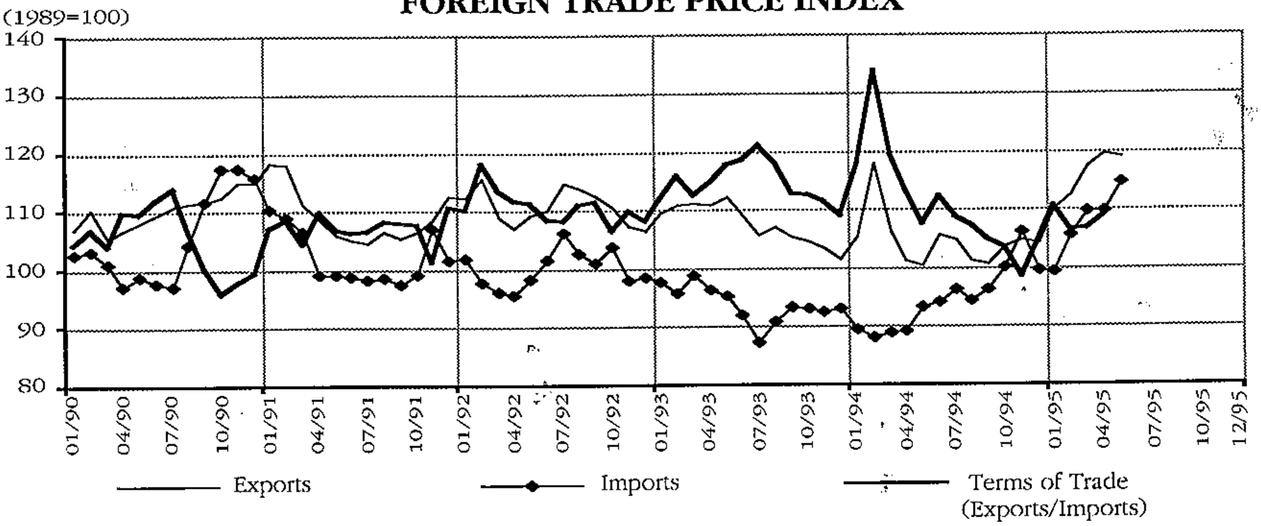
FOREIGN TRADE

GRAPH 23



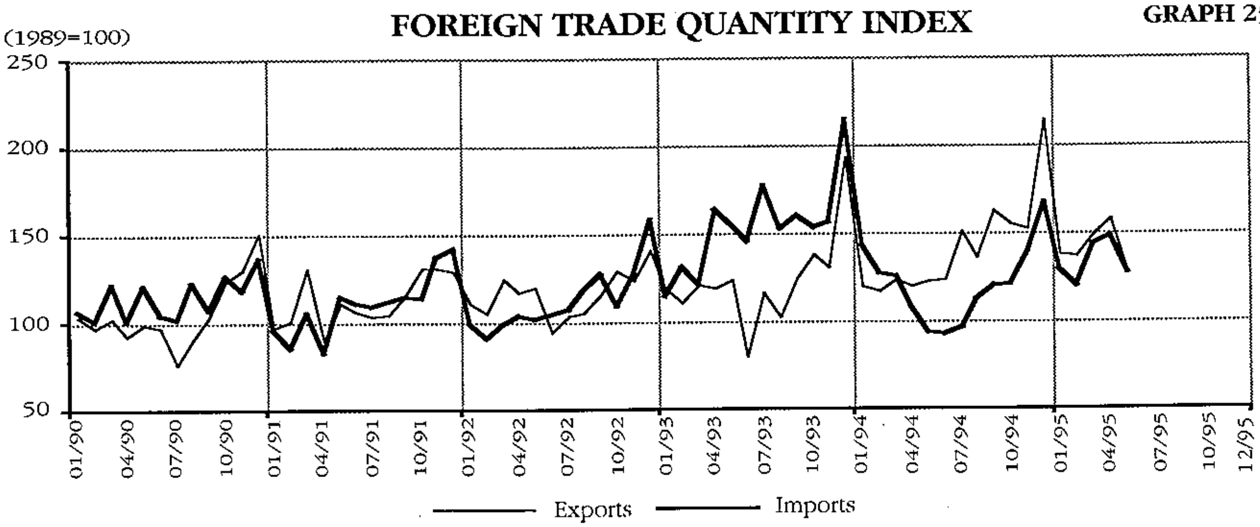
FOREIGN TRADE PRICE INDEX

GRAPH 24



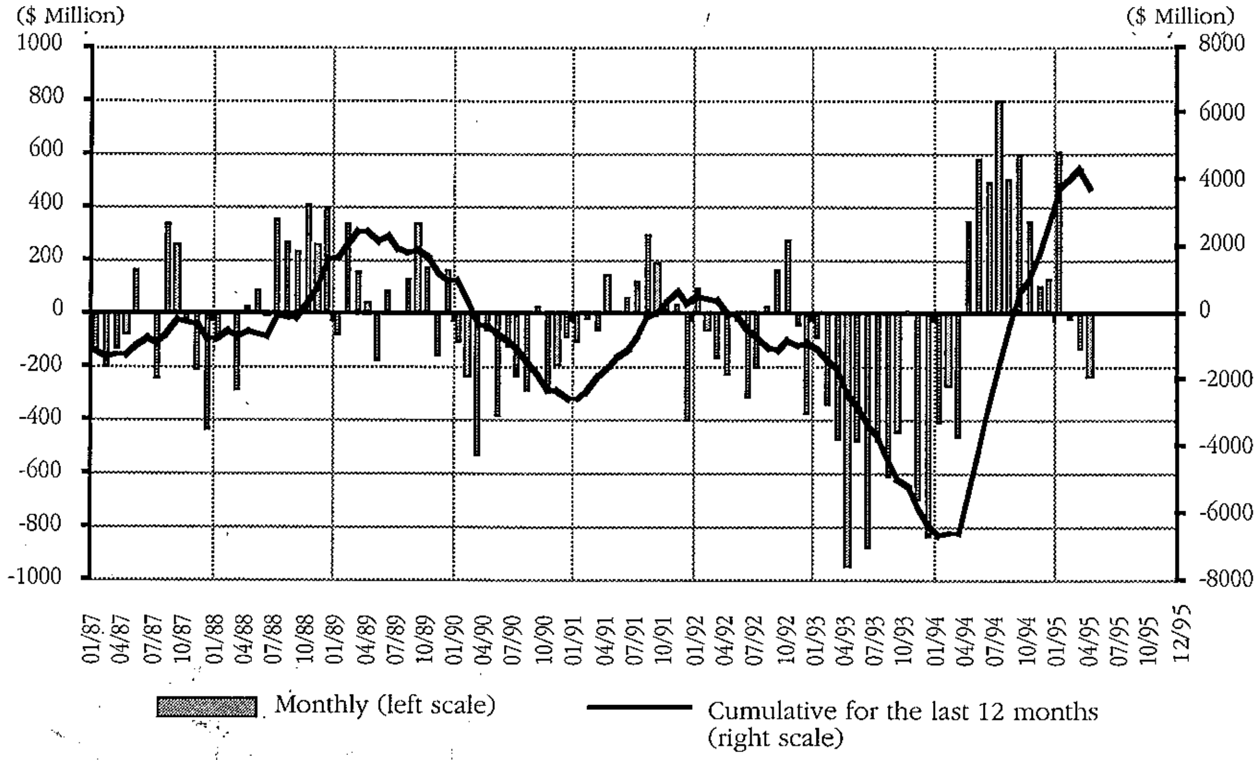
FOREIGN TRADE QUANTITY INDEX

GRAPH 25



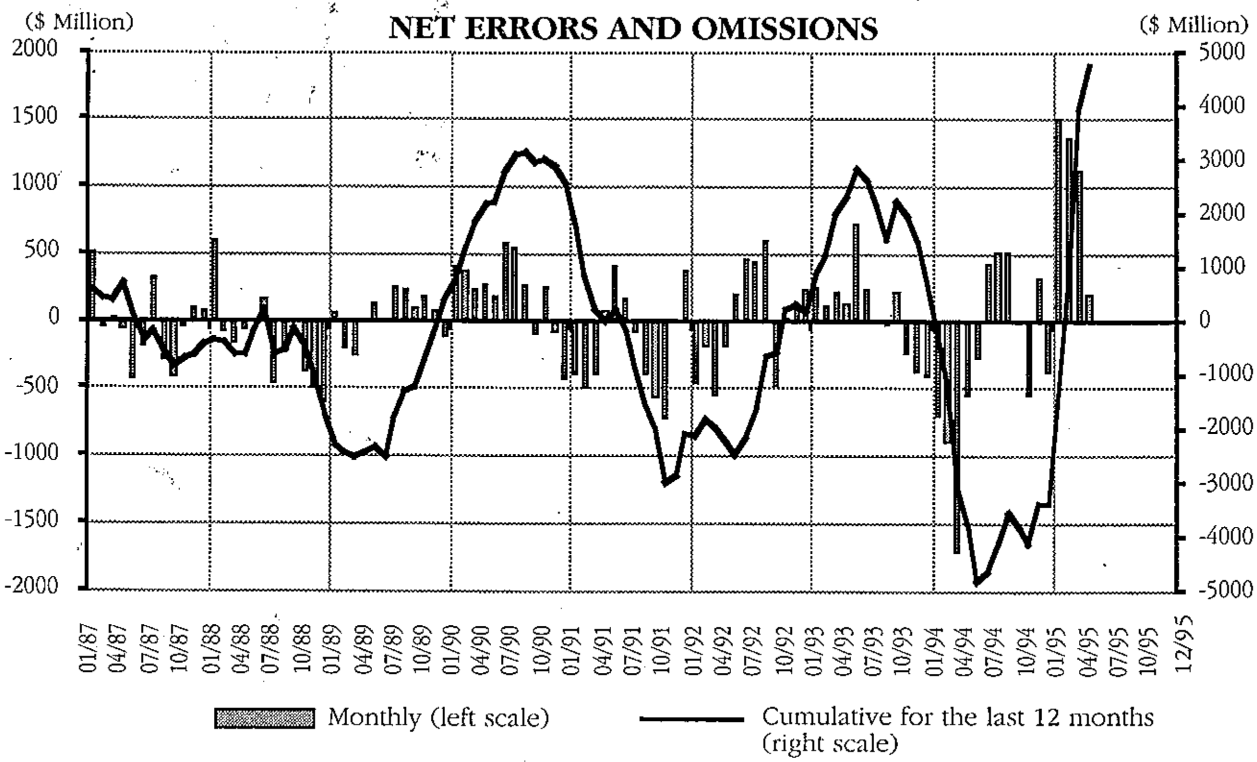
GRAPH 26

CURRENT ACCOUNT BALANCE



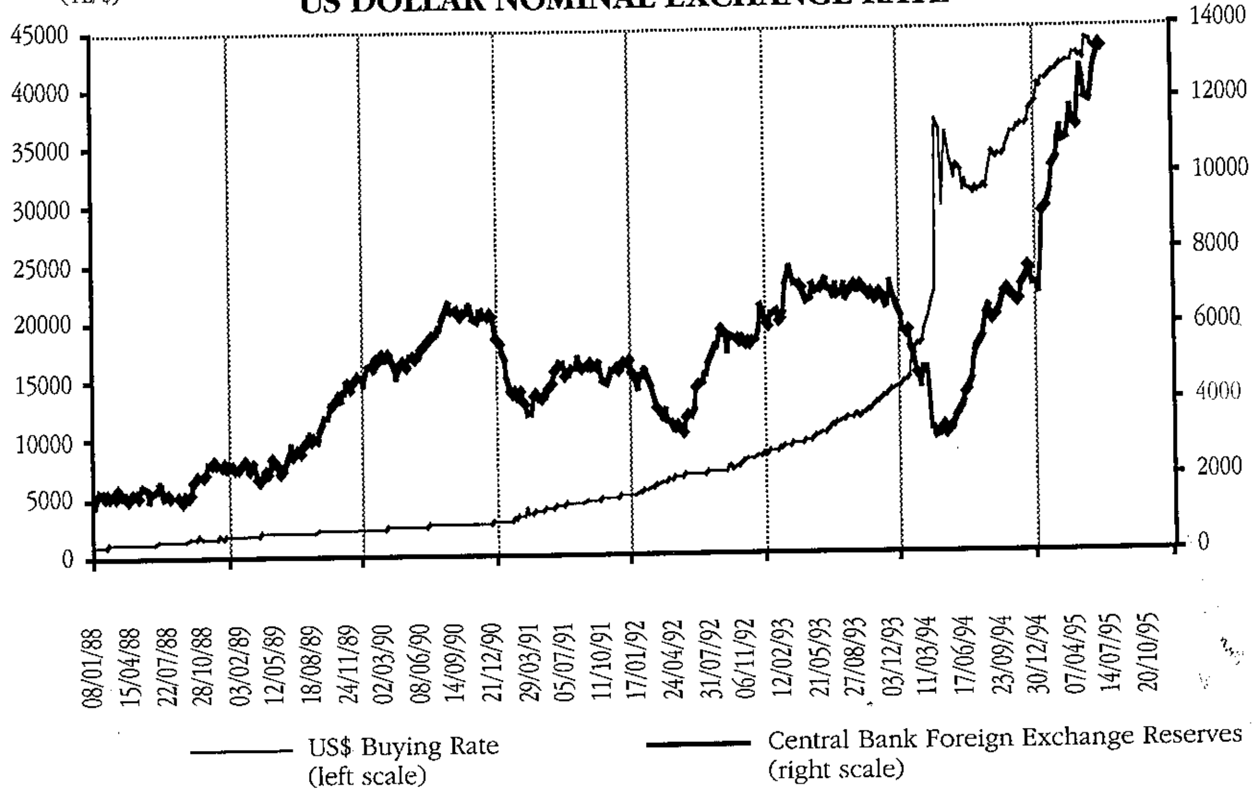
GRAPH 27

TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS



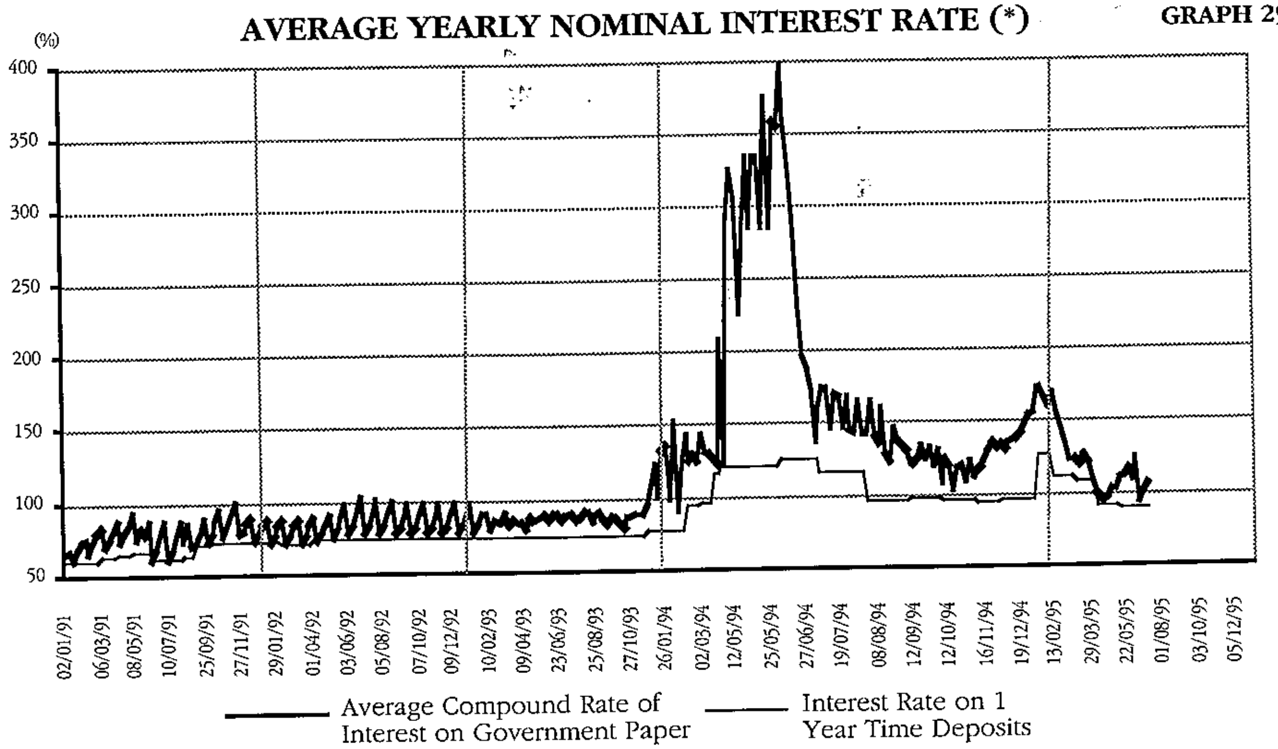
GRAPH 28

CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE



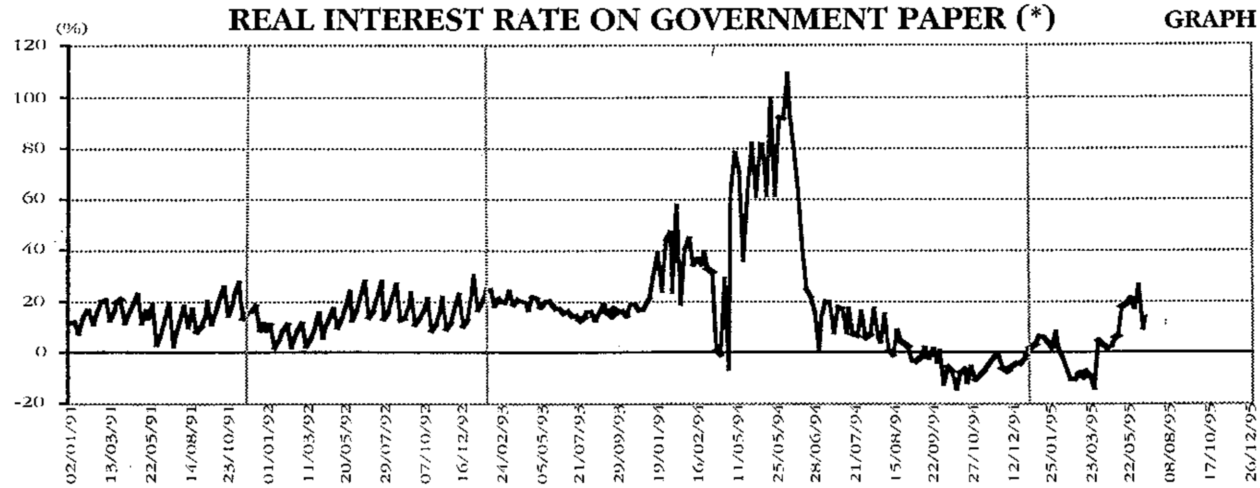
GRAPH 29

AVERAGE YEARLY NOMINAL INTEREST RATE (*)



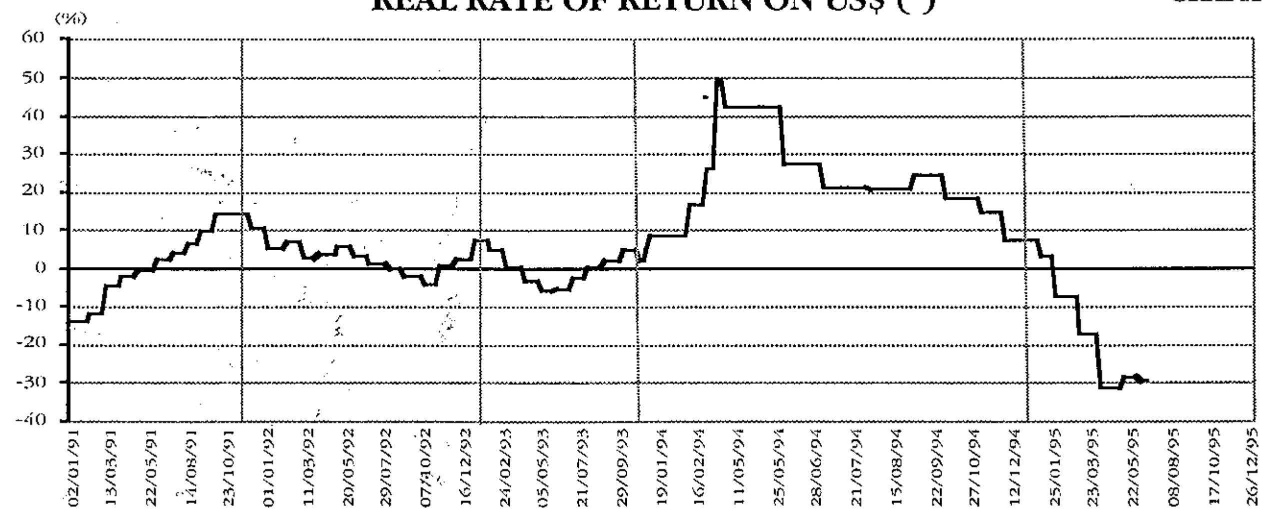
(*) According to date of Treasury auctions; includes all type of maturities

REAL INTEREST RATE ON GOVERNMENT PAPER (*) **GRAPH 30**



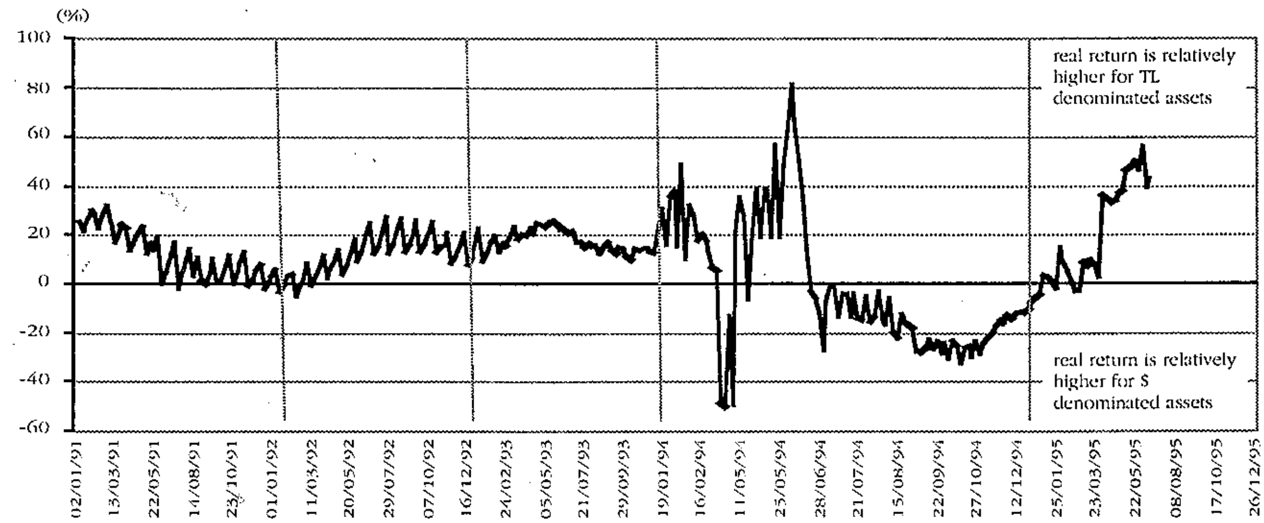
(*) Real interest rate is computed: $[(1+i)/(1+\dot{p})-1]*100$
i: Average compound rate of interest on government paper (for all maturities). $\dot{p}$: inflation rate: $[pt/p(t-12)-1]$

REAL RATE OF RETURN ON US$ (*) **GRAPH 31**



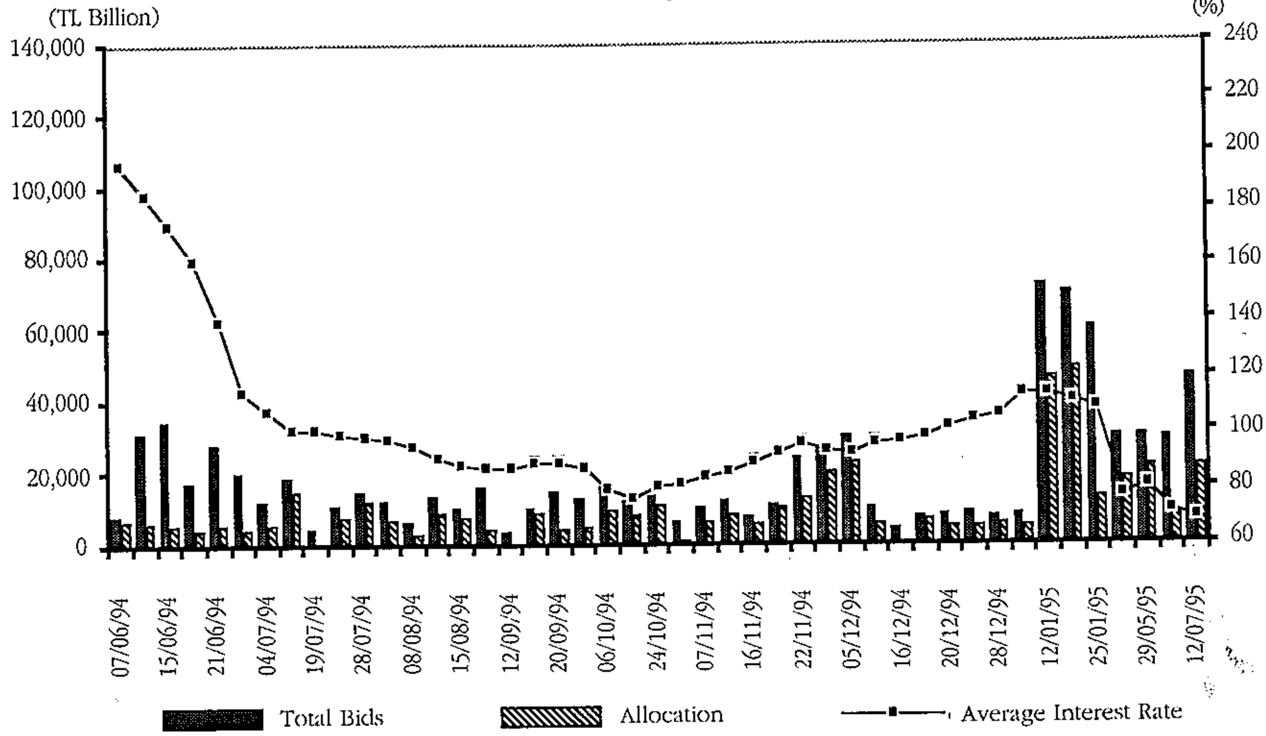
Real rate of return is calculated as the yearly increase of the index (TL/$)/WPI (1987=100)

REAL INTEREST RATE MINUS REAL RATE OF RETURN ON US$ **GRAPH 32**



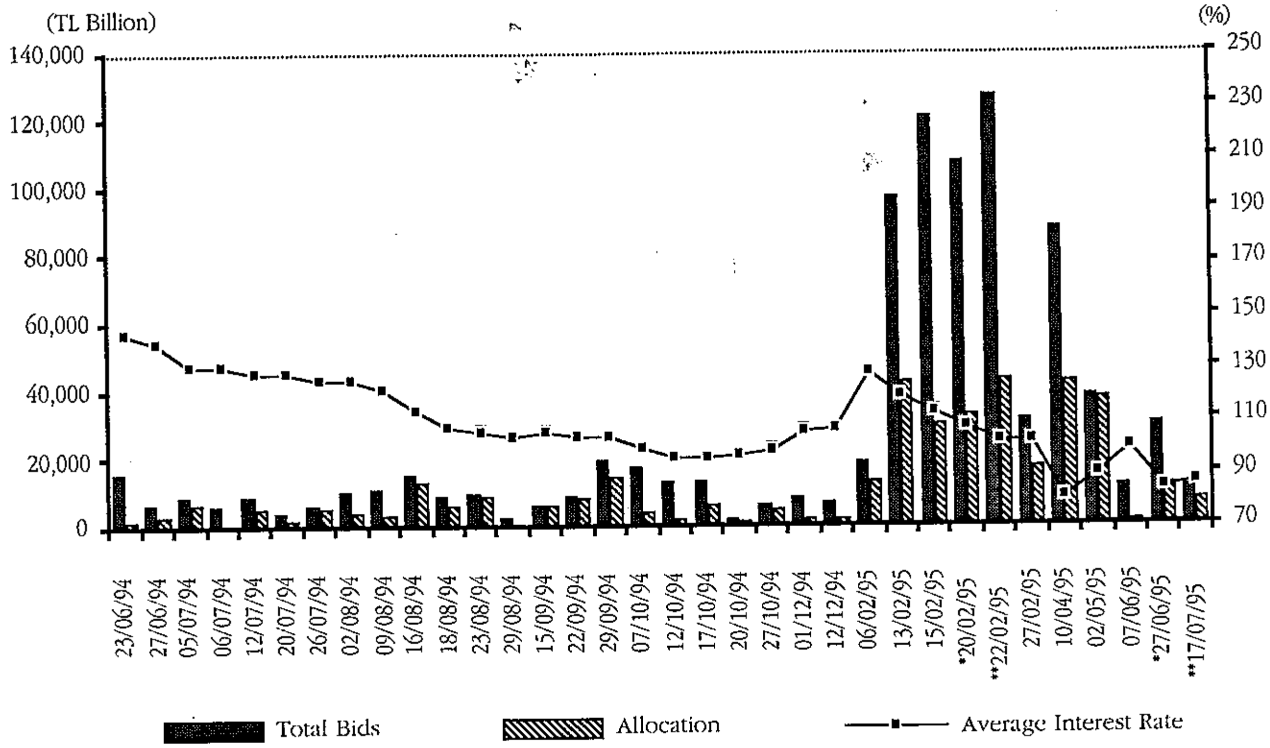
TREASURY AUCTIONS (3 Months Maturity)

GRAPH 33



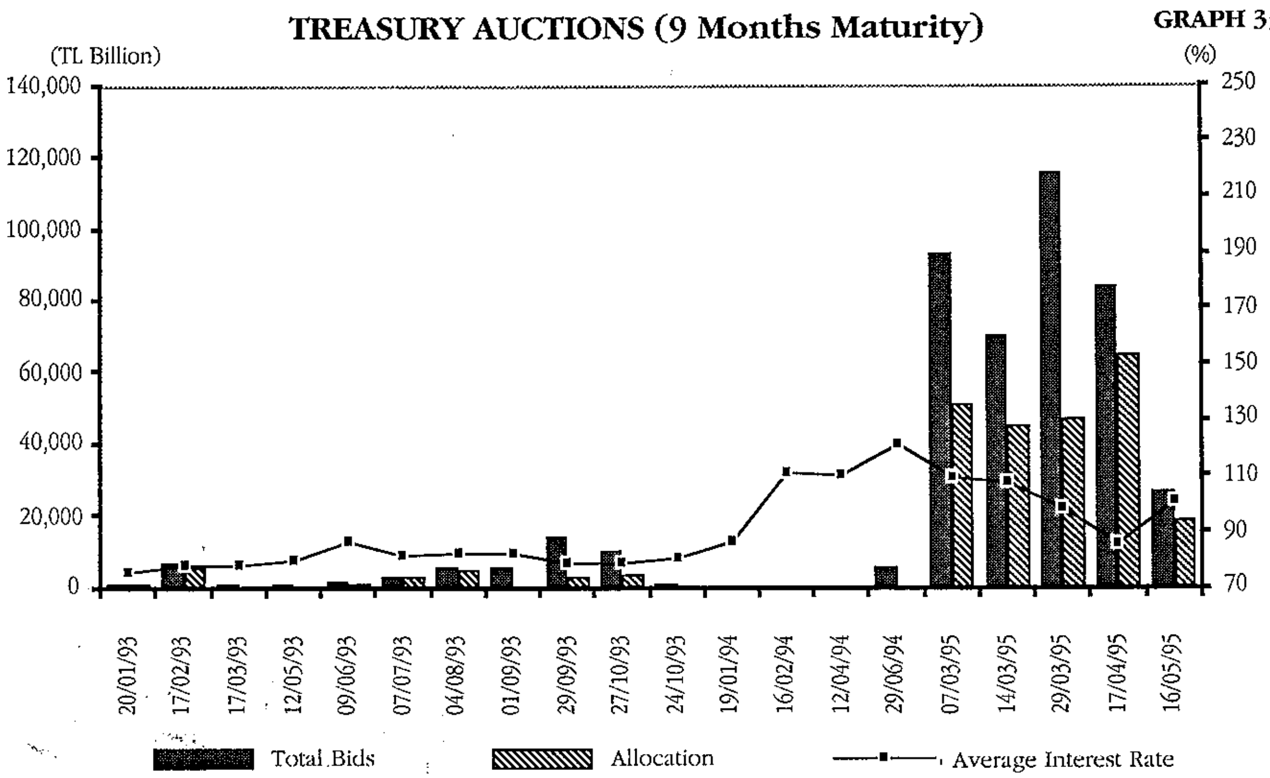
TREASURY AUCTIONS (6 Months Maturity)

GRAPH 34

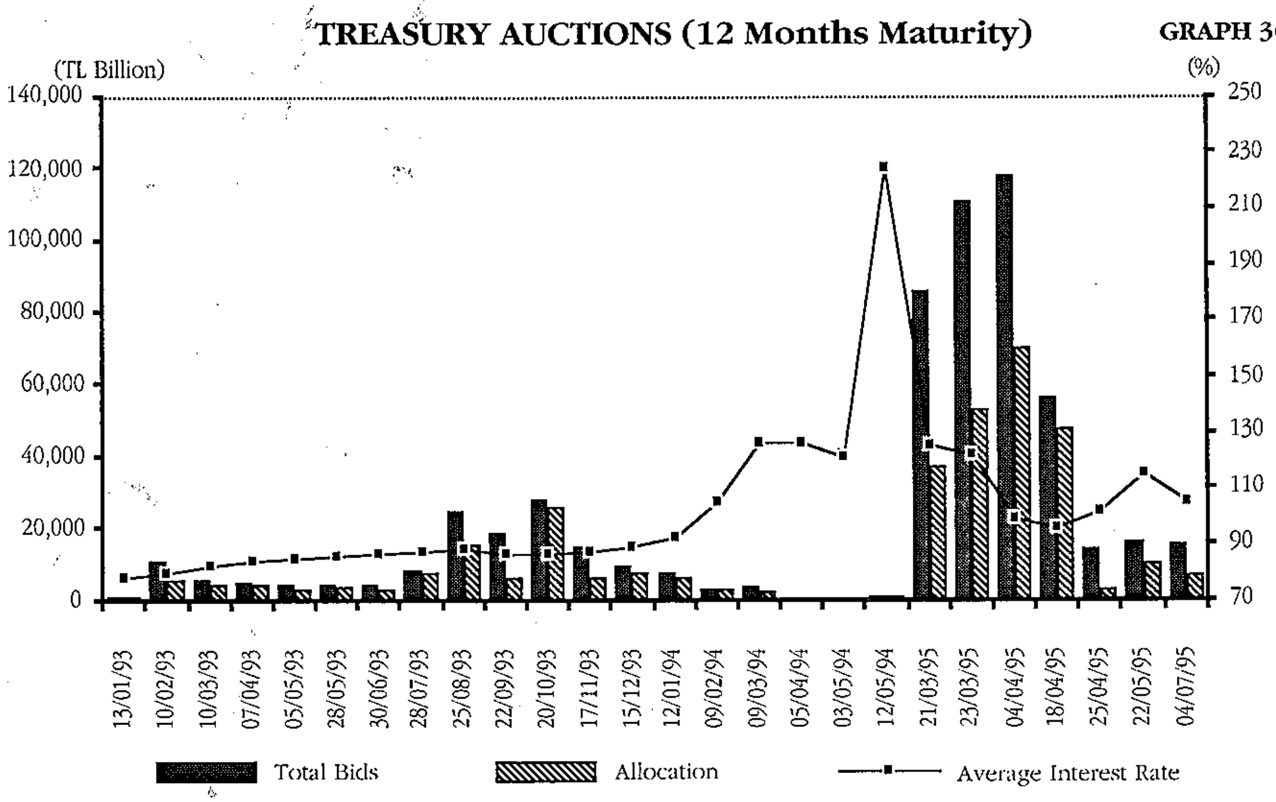


** 191 days ** 210 days*

GRAPH 35



GRAPH 36



SUPPLEMENT

Employment and Wages in Turkey

Labour market problems, and particularly unemployment, have not so far received the attention they deserve in Turkish economic policy debates. We are therefore adding a supplement on employment and wages to the current issue of TÜSİAD Quarterly Economic Survey (QES), in order to encourage the inclusion of these variables in standard data base of policy makers and economists. This supplement will survey the last 8-10 years' structural tendencies in employment and wages. The forthcoming issues of TÜSİAD QES will continue to monitor new developments related to these variables.(1)

As a result of immigration from rural to urban areas the risk of unemployment now affects a wide population.

Structural change has been going on for the last few generations. As more than half of Turkey's population now lives in urban areas and is employed in nonagricultural sectors a - trend which is expected to continue - Turkey is not any more immune from the open unemployment problem as an underdeveloped economy is believed to be. On the other hand, as of April 1994, in rural areas, where 45 percent of the population of working age lives, 83 percent of employment consist of the self-employed or unpaid family workers. In this traditional environment, where hiring and firing is not determined by demand and supply, the open unemployment (4.6 percent in April 1994) is not economically meaningful - notwithstanding that this rate is still high in comparision to many other middle income countries. This supplement will focus mainly on the labour force data related to urban areas.

According to the 1994 figures more than half of Turkey's population lives in urban areas, where the unemployment rate hovered around 11-15 percent in the last decade. Unemployment rate comparisons with industrialized countries should be based on this figure. Furthermore, concentration in urban areas is continuing at a high speed and the total unemployment rate is increasingly determined by the urban rate as a consequence. If Turkey cannot solve the structural problems which keep the urban unemployment rate high, unemployment will become a major problem concerning an increasingly larger part of the population.

(1) To provide an easy reading (both of the text and the figures) we summarize key concepts below:
Labour force: total of employed and unemployed seeking and available for work.
Labour force participation rate or economic participation rate: the ratio of the labour force to the population of working age (aged 12 years or more).
Unemployment rate: the ratio of the unemployed to the labour force.
Employment rate: the ratio of the employed to the population of working age (aged 12 years or more)

The scarcity of reliable and up-to-date information makes a full analysis difficult.

A Household Labour Force Survey, carried out by the State Institute of Statistics (SIS) twice a year in April and October, is the major source of labour force data. Since these take a long time to be published, however, it has not been possible to detect the impact of the 1994 economic crisis on the labour force at this stage.

Moreover, the definitions of the Survey have been changed from time to time, which makes a long run comparative analysis impossible. Before the October 1985 Survey, settlements with a population of 10 thousand or higher were defined as urban areas whereas after that date 20 thousand is taken as the demarcation line. Further modifications in the October 1988 questionnaire have shifted the beginning of the comparable data to that date. However, the simplified survey roster, which is in vigor since October 1990, does not necessitate a break in the series. Generally speaking, following the modifications, surveys tended to register positive developments such as a decline in the unemployment rate or a rise in the labour force participation rate.

Other publications such as the SIS Employment and Working Hours in the Manufacturing Industry Index, provide more up-to date data but cover only a small part of overall employment.

High urban unemployment rate and low female labour force participation point to a serious bottleneck in the labour market.

According to the latest available Survey (April 1994), unemployment is 12.9 percent in urban areas and 8.3 percent in the whole country. Unemployment in urban areas is 19.6 percent for women and 11.4 percent for men. The urban unemployment rate began to rise since April 1993. This development can either be explained by the low rate of employment creation or by a higher participation rate induced by rapid economic growth in 1993.

The economic participation rate, which is low in comparision to industrialized and dynamic East Asian countries, has tended to decline throughout the period for which there is data. This rate reached 51.6 percent in April 1994, having risen somewhat in the October 1993-April 1994 period. This low participation rate and its tendency to fall are basically accounted for by the low female labour force participation rate in urban areas. The female participation rate hovered around 16 percent in the period 1988-1994. This rate which does not show any long-term tendency to rise is not much higher in comparision to Middle East countries where labour force participation and economic independence of women are not considered to be an integral part of social order. Despite their low labour force participation, female unemployment rate in urban areas is as high as 20 percent.

Limited hope of finding a job may be the major cause behind the low participation rate.

The slower growth of the labour force in comparision to the adult population can be due to, among other things, a diminishing hope of finding a job. Labour force surveys run into well known problems in identifying those who are not seeking jobs because they have no hope of finding one. In fact, the dearth of attractive job opportunities and their slow growth, results in a significant fraction of the urban population to fall out completely from working life or never get integrated into it. Individuals in this situation loose or never develop in the first place the requisite skills of searching and landing a job and then succeeding in staying in it. In the breakdown of those not in the labour force according to the reason for their non-participation, this group may not even be making it into the category of "discouraged workers" (available but not seeking a job), and, in stead, hide in categories like "housewife", "not seeking a job for family or personal reasons", or "other". Inclusion of these types of discouraged workers would result in a much higher unemployment rate in Turkey's urban areas.

Only 20 percent of absolute growth in urban population has been absorbed by the job market.

Low and declining participation and employment rates can also be explained by a widening education. This effect is aggravated in Turkey by the low age threshold (12 years) set to define adult population.

Between April 1992 and April 1994, the net increase in urban adult population was 1.71 million. Only 19.3 percent (331 thousand) of these have joined the employed whereas 7.9 percent joined the ranks of the (openly) unemployed. 40 percent of the remaining population is either in school or is older than 65 and, left the labour force. 32.8 percent of the net increase can be accounted for by categories (e.g. "other") described above. Those who are out of the labour force for reasons other than old age or education are 1.7 times more numerous than those who have joined the employed.

As there are difficulties in defining the labour force, and especially unemployment, analyst from developed OECD countries have recently began to pay attention to a new concept - the "employment rate" - which is the ratio of the employed to the entire working-age population rather than to the labour force. In urban Turkey, this ratio is about 37 percent. While the urban female employment rate has been stable, at 12-13 percent in 1988-1994, the same ratio for men declined by 6 percent in the same period to reach 60 percent.

It is very difficult to forecast the unemployment rate and other labour force variables in Turkey. An upsurge of economic activity might increase employment while it is also possible to observe a decline participation and employment rates during a boom, as expectations of finding a job may rise, resulting in the number of job searchers increasing faster than the number of new jobs. In spite of these difficulties, the State Planning Organization (SPO) predicts a 10.5 percent unemployment rate for 1994 and the OECD 10.9 percent. This rate was 7.6 percent in 1993 for the whole country. However, considering that the April 1994 figure is 8.3 percent , SPO's forecast for the whole year can only be fulfiled if the October 1994 rate reaches at least of 12.7 percent.

It is not possible to to observe the relationship between wages and other macroeconmic variables adequately, as data on wages cover only a limited portion of all wage employment.

There are no data covering the entire wage employment (6.3 million people, accounting for 32 percent of all employment as of April 1994). On the other hand, SIS publishes data on wages in the manufacturing sector (3 million people, 15 percent of all employment). Furthermore, the Turkish Confederation of Employers' Unions (TİSK) publishes wage statistics covering the unionized segment of employment, mainly in the the manufacturing sector.

The SIS data cover all public firms in the manufacturing sector as well as private manufacturing firms with 10 or more employees. An analysis of 1991 data reveals that these amount to only 943 thousand workers out of 1.9 million classified by the Household Labour Force Survey as workers employed in the manufacturing sector. TİSK data, on the other hand, are based on approximately 200 thousand workers employed in 495 firms beloying to of 12 employers' union, as of 1993. The coverage of DIE data on production, employment and hours worked in manufacturing - on which the productivity calculations are based - is the same as their wage data. Hence any analysis concerning wages has to be qualified with these serious limitations of coverage.

Real wages covered in the statistics display fluctuations of a magnitude and intensity which cannot be explained by changes in productivity, and which are, therefore, harmful to competetitiveness.

According to the SIS statistics, real wages per hour worked in the manufacturing sector declined by 23 percent in 1980-1988, but rose by 91 percent in 1988-1991. In the latter period productivity gains were substantially lower than real wage increases. Between the third quarter of 1990 and the first quarter of 1992, the period of highest increase in real wages (30 percent), manufacturing sector employment declined by 15 percent on an annual and 21.7 percent on a cumulative basis. Subsequently, real wages remained roughly constant between the first quarter of 1992 and the last quarter of 1993 when the economy grew by 14.5 percent in cumulative terms and manufacturing production rose by 27.4 percent. Generally, productivity in the manufacturing sector also increased by 23 percent. In general, we observe that production and investment increases did not lead to sustained increases in employment in the unstable post-1988 period when expansions and contractions were short-lived. In this period real wage fluctuations did not reflect changes in productivitybut were essentially politically induced.

Although real wages decreased after the 1994 Crisis, they are still 16 percent above their 1990 average.

In the manufacturing sector, real wages were approximately constant in 1993. However, they declined considerably (by 23.8 percent) between the first and the second quarters of 1994 as a result of the big leap in inflation. However, the general manufacturing industry figures are not fully uniform; the 1988-1993 annual figures include in-kind payments to workers, whereas the post - 1993 quarterly data exclude them. An error margin should thus be taken for granted. For this reason, we did not form a unique series for 1988-1994 period. Nonetheless, leaving this error margin aside, the decline in real wages observed since the first quarter of 1993 lowered, in the third quarter of 1994, the general manufacturing real wage level down to roughly its 1990 average.

TİSK's wage series, which is published quarterly and covers only unionized workers, provides data as of April 1995. This series is more up-to-date but displays sudden jumps in periods where collective bargaining agreements are bunched together. Hence, this series should not be used to calculate interperiod rates of increase. The series, nevertheless, shows that unionized workers' real wages declined from the second quarter of 1994 onwards as a result of the crisis and the rise in inflation. However, it is observed that real wages are still high as compared to their 1988 level . Wages of unionized manufacturing workers are, as of the second quarter of 1995, 16 percent higher than their 1990 average and 77 percent higher than in 1988.

NON-INSTITUTIONAL CIVILIAN POPULATION BY LABOUR FORCE AND EMPLOYMENT STATUS, AND BRANCH OF ECONOMIC ACTIVITY APRIL 1994

	Urban Area			Rural Area			Turkey		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
LABOUR MARKET STATUS	(000 Persons)			(000 Persons)			(000 Persons)		
Total population	15821	16530	32350	14054	13682	27736	29875	30211	60086
Aged 12 years or more	11257	11811	23068	9674	9130	18805	20932	20942	41873
Participation rate (%)	**15.9**	**67.7**	**42.4**	**50.4**	**75.8**	**62.7**	**31.9**	**71.2**	**51.6**
Labour force	1795	7994	9789	4874	6923	11797	6668	14918	21586
Employed	1444	7082	8526	4779	6479	11258	6223	13561	19784
Unemployed	351	912	1263	94	444	539	445	1357	1802
Unemployment rate (%)	**19.6**	**11.4**	**12.9**	**1.9**	**6.4**	**4.6**	**6.7**	**9.1**	**8.3**
Employment rate (%) *	**12.8**	**60.0**	**37.0**	**49.4**	**71.0**	**59.9**	**29.7**	**64.8**	**47.2**
Not in labour force:	9462	3817	13279	4801	2207	7008	14263	6024	20287
Disabled, old or ill	639	359	998	857	532	1389	1496	890	2387
Retired-60 and older	67	632	700	3	197	200	70	829	899
Retired-younger than 60	122	522	644	11	130	141	132	652	785
Student	1439	1992	3431	608	1123	1731	2047	3114	5162
Housewife	6674	---	6674	3103	---	3103	9777	---	9777
Others	521	312	833	219	226	445	740	538	1278
Population aged 15 to 24									
Population	2974	2908	5883	2572	2216	4788	5547	5124	10671
Participation rate (%)	**21.3**	**57.0**	**38.9**	**56.5**	**78.6**	**66.7**	**37.6**	**66.3**	**51.4**
Labour force	633	1657	2291	1454	1741	3195	2087	3398	5485
Employed	454	1262	1716	1393	1399	2792	1847	2661	4508
Unemployed	179	395	574	61	212	273	241	607	848
Unemployment rate (%)	**28.3**	**23.8**	**25.1**	**4.2**	**12.2**	**8.6**	**11.5**	**17.9**	**15.5**
Employment rate (%)	**15.3**	**43.4**	**29.2**	**54.1**	**63.1**	**58.3**	**33.3**	**51.9**	**42.2**
Not in labour force	2341	1251	3592	1118	605	1723	3459	1856	5315
Disabled or ill	17	37	55	15	27	42	33	64	96
Student	688	1070	1758	188	504	692	876	1574	2450
Housewife	1418	---	1418	827	---	827	2245	---	2245
Others	217	144	361	88	74	162	306	218	524
EMPLOYMENT STATUS	(percent of employment)								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Regular employee	64.2	56.6	57.9	5.6	16.7	12.0	19.2	37.5	31.8
Casual employee	6.5	9.6	9.1	2.4	7.0	5.1	3.4	8.4	6.8
Unpaid family worker	15.2	4.2	6.1	82.6	25.7	49.8	66.9	14.5	31.0
Employer or self-employed	14.1	29.5	26.9	9.4	50.7	33.1	10.5	39.6	30.4
ECONOMIC SECTOR	(percent of employment)								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry, etc.	14.4	4.0	5.8	92.5	67.5	78.1	74.4	34.4	47.0
Manufacturing	30.2	28.3	28.6	4.1	6.6	5.6	10.2	18.0	15.5
Others	55.4	67.7	65.6	3.4	25.8	16.3	15.5	47.7	37.5

** Employed as a percentage of population aged 12 or more.*

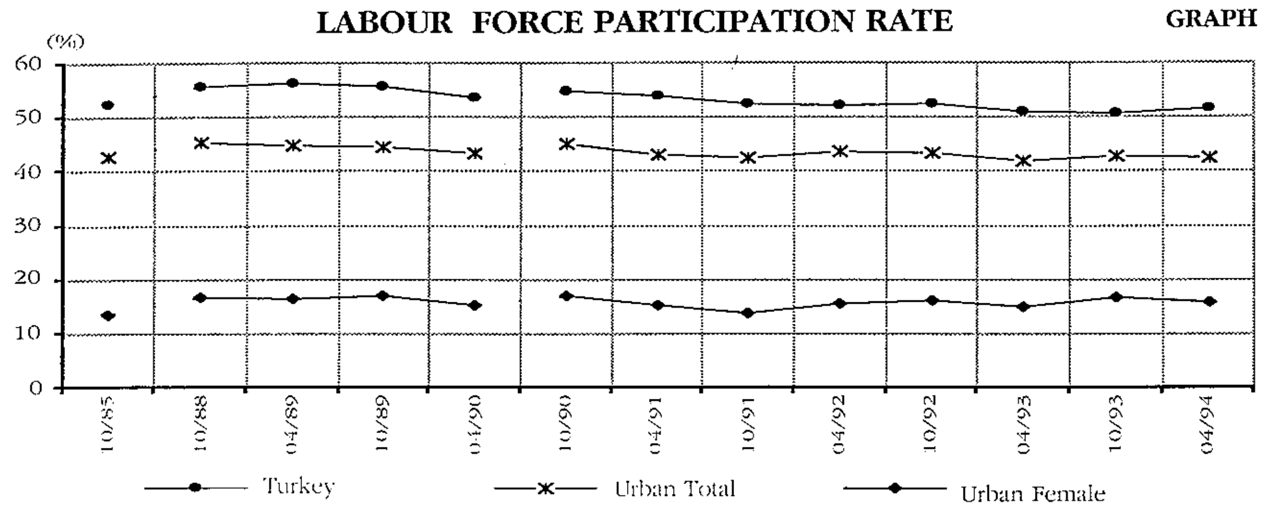
Source: State Institute of Statistics, Household Labour Force Survey Results, April 1994

LABOUR FORCE PARTICIPATION, UNEMPLOYMENT AND EMPLOYMENT (1985-1994)

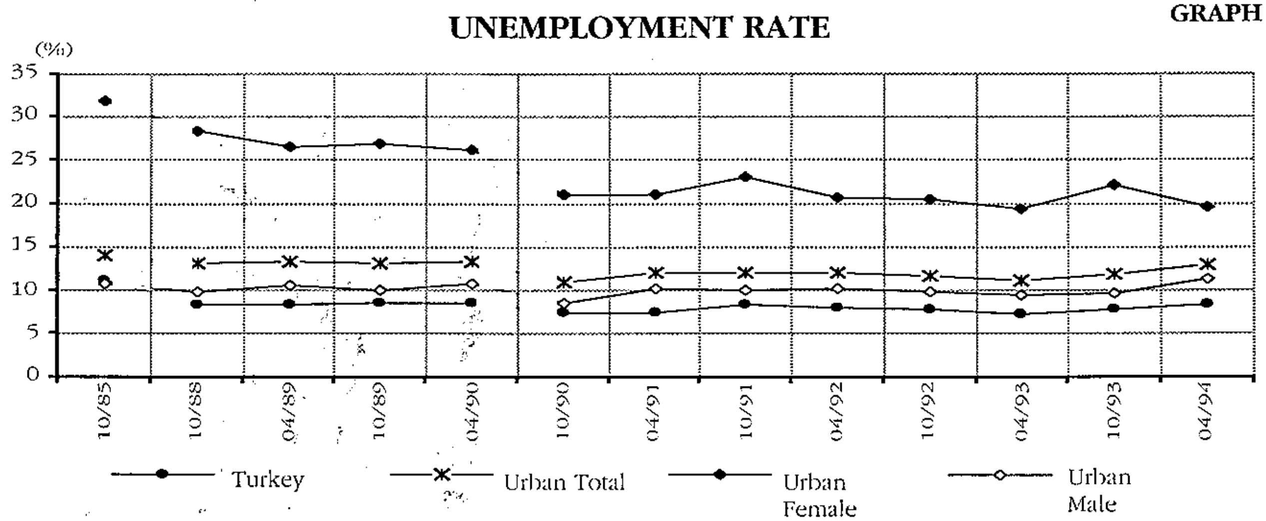
Date of survey	Urban Area			Turkey		
	Labour force participation rate (a) (%)	Unemployment Rate (b) (%)	Employment Rate (c) (%)	Labour force participation rate (a) (%)	Unemployment Rate (b) (%)	Employment Rate (c) (%)
Female						
October 1985	13.7	31.9	9.3	31.7	11.1	28.2
October 1988	16.9	28.4	12.1	34.9	9.6	31.6
April 1989	16.5	26.5	12.1	36.6	8.9	33.3
October 1989	17.2	26.9	12.5	36.0	8.8	32.9
April 1990	15.2	26.1	11.2	33.4	8.9	30.4
October 1990	17.0	21.0	13.4	34.7	7.2	32.2
April 1991	15.3	21.0	12.1	33.4	6.4	31.2
October 1991	13.9	23.0	10.7	32.9	7.1	30.6
April 1992	15.7	20.6	12.5	31.4	7.3	29.1
October 1992	16.1	20.5	12.8	32.3	7.2	30.0
April 1993	15.0	19.3	12.1	30.6	6.3	28.7
October 1993	16.7	22.1	13.0	31.2	7.2	28.9
April 1994	15.9	19.6	12.8	31.9	6.7	29.7
Apr 94 minus Oct 88	-1.0	-8.8	0.7	-3.0	-2.9	-1.9
Male						
October 1985	69.9	10.7	62.4	72.5	11.3	64.4
October 1988	72.9	9.8	65.7	76.5	7.7	70.7
April 1989	71.9	10.5	64.4	76.0	8.2	69.7
October 1989	71.0	10.0	63.9	75.4	8.4	69.1
April 1990	70.3	10.8	62.7	73.9	8.4	67.7
October 1990	72.2	8.6	66.0	75.2	7.5	69.5
April 1991	69.8	10.3	62.6	74.6	7.8	68.7
October 1991	69.8	10.0	62.8	72.2	8.8	65.9
April 1992	70.4	10.3	63.1	73.0	8.3	66.9
October 1992	69.2	9.8	62.5	72.5	8.1	66.7
April 1993	67.6	9.5	61.2	71.2	7.7	65.7
October 1993	68.0	9.6	61.5	70.2	8.2	64.5
April 1994	67.7	11.4	60.0	71.2	9.1	64.8
Apr 94 minus Oct 88	-5.2	1.6	-5.7	-5.3	1.4	-5.9
Total						
October 1985	42.8	14.0	36.8	52.3	11.2	46.4
October 1988	45.4	13.2	39.4	55.6	8.3	51.0
April 1989	44.8	13.4	38.8	56.1	8.4	51.4
October 1989	44.6	13.2	38.7	55.6	8.5	50.8
April 1990	43.3	13.4	37.5	53.5	8.5	48.9
October 1990	45.0	10.9	40.1	54.8	7.4	50.7
April 1991	43.1	12.1	37.9	53.9	7.4	49.9
October 1991	42.4	12.1	37.3	52.5	8.3	48.2
April 1992	43.7	12.1	38.4	52.2	8.0	48.3
October 1992	43.3	11.7	38.2	52.4	7.8	48.3
April 1993	41.9	11.2	37.2	50.9	7.3	47.2
October 1993	42.9	11.9	37.8	50.7	7.9	46.7
April 1994	42.4	12.9	37.0	51.6	8.3	47.2
Apr 94 minus Oct 88	-3.0	-0.3	-2.4	-4.0	0.0	-3.8

(a) Total of employed and unemployed as a percentage of population aged 12 or more.
(b) Unemployed as a percentage of the labour force.
(c) Employed as a percentage of population aged 12 or more.
Source: State Institute of Statistics, Household Labour Force Survey Results, various issues from October 1985 to April 1994.

GRAPH 1



GRAPH 2



GRAPH 3

ABSOLUTE CHANGES IN URBAN POPULATION

APRIL 1990-APRIL 1992 AND APRIL 1992-APRIL 1994

(000 Persons)	**1990-92**	%	**1992-94**	%
Population aged 12 or more	1675	100.0	1712	100.0
Total employed	812	48.5	331	19.3
Female	219	13.1	141	8.2
Male	593	35.4	190	11.1
Total unemployed	-15	-0.9	135	7.9
Female	28	1.7	123	7.2
Male	-43	-2.6	12	0.7
Not in the labour force	878	52.4	1246	72.8
in school	305	18.2	543	31.7
aged 65 or more	55	3.3	142	8.3
due to other reasons	**518**	**30.9**	**561**	**32.8**
Females not in the labour force	631	37.7	664	38.8
in school	105	6.3	270	15.8
aged 65 or more	48	2.9	60	3.5
due to other reasons	**478**	**28.5**	**334**	**19.5**
Males not in the labour force	247	14.7	582	34.0
in school	200	11.9	273	15.9
aged 65 or more	7	0.4	82	4.8
due to other reasons	**40**	**2.4**	**227**	**13.3**

Note: The figures on this table are obtained by applying sample survey results to the "non-institutional civilian (i.e., not in jail or in military service) population". Therefore, these figures should be read approximations.
Source: State Institute of Statistics, Household Labour Force Survey Results, various issues.

EMPLOYMENT, PRODUCTIVITY AND EARNINGS
IN THE MANUFACTURING INDUSTRY

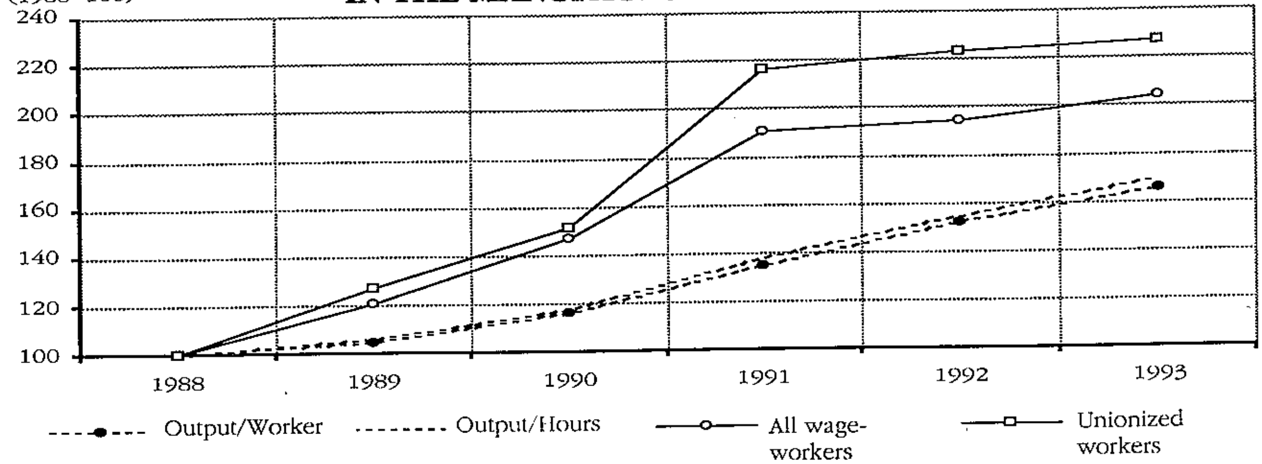
	Annual data: (1988 = 100) Output	Persons engaged	Hours worked	Productivity Output/Worker	Output/Hours	Gross pay Including in-kind payments All wage-workers	Including in-kind payments Unionized workers (*)	**Combined index (1988=100) Including in-kind** payments Unionized workers (*)
1988	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1989	101.2	96.7	95.5	104.6	106.0	120.8	127.1	127.1
1990	111.3	95.8	94.7	116.1	117.5	146.8	151.8	151.8
1991	114.2	84.7	82.8	134.8	138.0	190.9	216.5	216.5
1992	119.4	78.3	77.1	152.4	154.7	194.8	223.5	223.5
1993	127.8	77.1	75.3	165.8	169.6	203.9	227.1	227.1

	Quarterly data: 1993/I = 100 Output	Persons engaged	Hours worked	Productivity Output/Worker	Output/Hours	Excluding in-kind payments All wage-workers	Including in-kind payments Unionized workers (*)	Combined index
I/93	100.0	100.0	100.0	100.0	100.0	100.0	100.0	221.4
II/93	106.4	103.8	103.7	102.5	102.6	100.0	98.3	217.6
III/93	109.3	107.3	110.4	101.9	99.0	96.1	93.0	205.9
IV/93	119.8	103.8	108.0	115.5	111.0	97.9	118.9	263.3
I/94	102.7	98.2	99.1	104.6	103.6	98.4	114.9	254.4
II/94	92.0	96.2	94.1	95.6	97.8	75.0	99.1	219.3
III/94	101.1	96.1	97.5	105.2	103.7	71.3	88.1	195.2
IV/94	110.3	94.6	98.7	116.6	111.8		102.8	227.6
I/95	96.6	92.0	94.1	105.0	102.7		88.1	195.1
II/95							79.8	176.8

(*) See discussion in the text (last paragraph) concerning the use of quarterly wage data in the unionized segment.
Source: State Institute of Statistics, TİSK

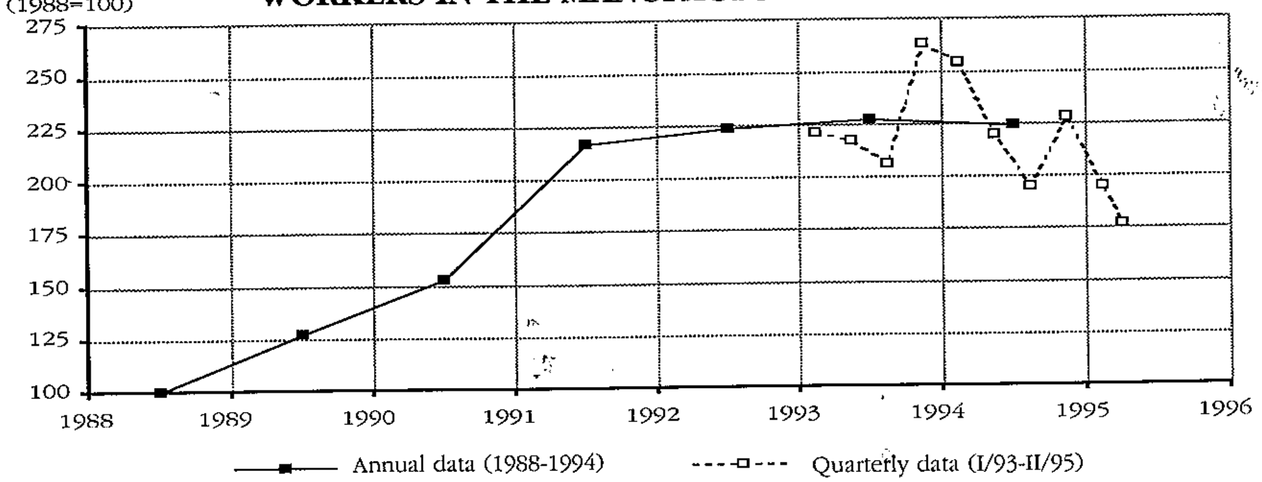
PRODUCTIVITY AND EARNINGS IN THE MANUFACTURING INDUSTRY

GRAPH 4



GROSS MONTHLY REAL EARNINGS OF UNIONIZED WORKERS IN THE MANUFACTURING INDUSTRY

GRAPH 5



PRODUCTIVITY AND EARNINGS IN THE MANUFACTURING INDUSTRY

GRAPH 6